

Nation's Business

A USEFUL LOOK AHEAD

DECEMBER 1957



'58 OUTLOOK

**By
business**

1958 will
match 1957

**By
government**

Next boom
three years away

This marketing plan builds profits PAGE 29

Pinpoint personnel strength PAGE 42

You can put your ideas across PAGE 62

How to interpret forecasts PAGE 44

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Will they work? Are they marketable? Will they stand up?

Bell System's new Customer Products Planning Division has the fascinating job of generating, screening and testing new ideas for ever-better telephone equipment and service.

Here in this quiet room is shaped an important part of the future of the telephone.

For here are gathered together from many sources the hundreds of new engineering and styling ideas ... even the "screwball notions" ... from which the telephone of tomorrow will be developed.

Which are good? Which are bad? It is the responsibility of the Customer

Products Planning Division to find out. And to select for development and production those items that people really want.

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This is just one reason for the success of Bell System's continuing program of research for ever-better telephone service.



Working together to bring people together
Bell Telephone System

Nation's Business

December 1957 Vol. 45 No. 12

Published by the Chamber of Commerce of the United States
Washington, D.C.

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Nation's Business is published monthly at 1615 H St. N. W., Washington 6, D. C. Subscription price \$18 for three years. Printed in U.S.A. Entered as second-class matter March 20, 1920, at the post office at Washington, D. C. Copyright, 1957, by Nation's Business—the Chamber of Commerce of the United States. Nation's Business is available by subscription only.



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ks like things have gone to the dogs, Lancelot!"

Lancelot: I'm afraid so, boss.

Man: But why?

Lancelot: Don't you know?

Man: All I know is I left the family a mighty prosperous business.

Lancelot: Boss, remember when you and I walked over to the office of that insurance man? The one from Equitable?

Man: Oh, my goodness!

Lancelot: And boss, do you remember what he said about that new kind of Equitable business insurance?

Man: Oh my!

Lancelot: How, between you and the lawyer and this policy, we'd have enough money to pay inheritance taxes without having to sell the business? You said you'd call him the next day.

Man: Oh!

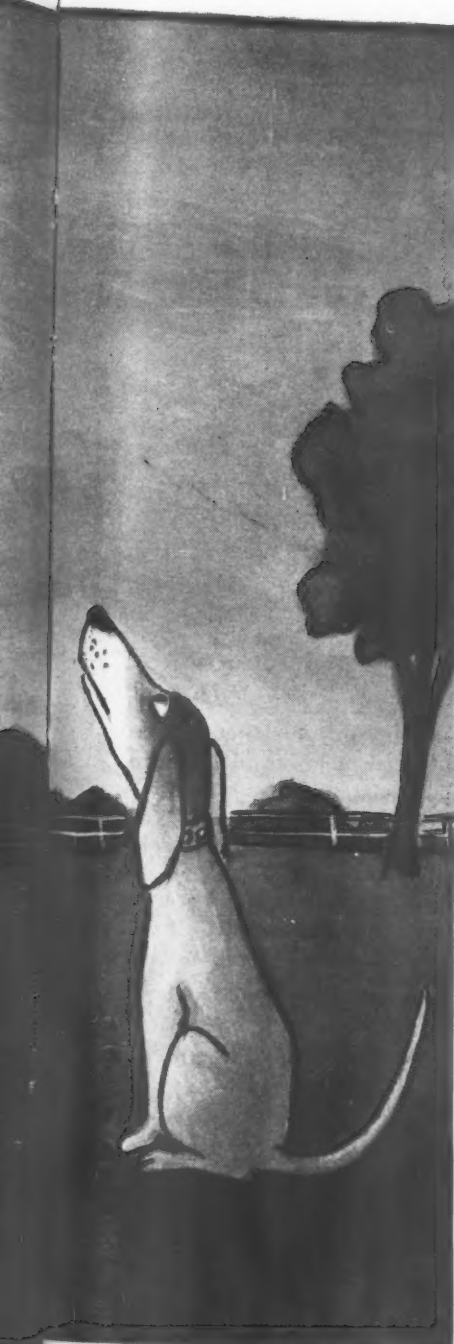
Lancelot: We had to sell the business—and at a big loss, at that—to get the money to pay those taxes.

Man: What can I do to make things right, Lancelot?

Lancelot: It's what you *could* have done, boss.

Man: Call the Man from Equitable?

Lancelot: It would have made all the difference.

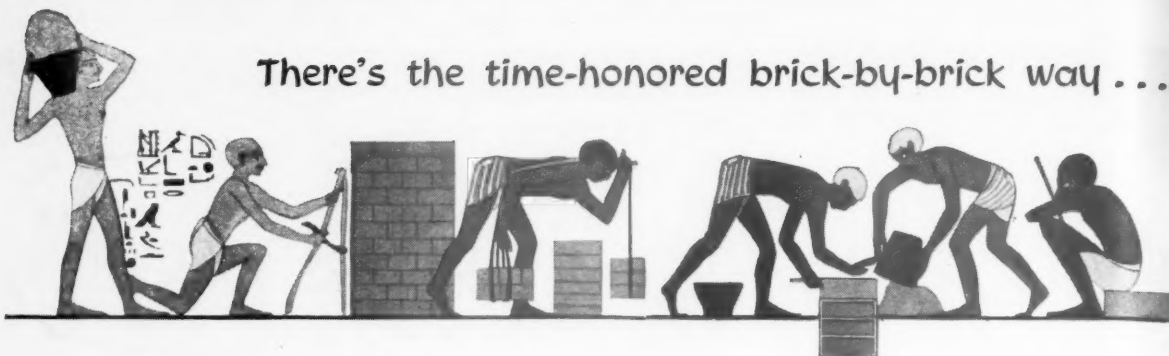


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There's the time-honored brick-by-brick way...

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Just think what your profits would be if you had to use production and handling methods little changed from the days of the Pharaohs. Yet, if you are planning a new building or expanding an existing one, your choice of construction may force you to use techniques hardly more modern. But today, there's a better way to build—a way that brings 20th century engineering and mass production right to your site. It's with pre-engineered Butler buildings.

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use a rigid-frame structural system that leaves the interior post-free for efficient layout planning, partitioning and illumination. Butler buildings go up weeks to months faster. Pre-engineered parts fit together perfectly to speed erection and make a weather-tight, durable covering.

And Butler's modular design makes future expansion practical without the need for demolition or interruption of work within the original structure.

The facts about this modern way to build are so important to your business that they deserve your personal attention. There's a Butler Builder near you who can give you the whole story. Call him. He's listed in the Yellow Pages of your phone book under "Buildings" or "Steel Buildings." Or write us direct.



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management's WASHINGTON LETTER

►WHAT'S THE REAL MEANING of Soviet scientific achievements, for America, for your business, for our future?

Of this you can be sure:

Issue will dominate session of Congress which begins next month.

To reach beyond daily headlines, this is a special background report based on talks with:

Congressional leaders, Administration officials, scientists, experts on Soviet affairs--people throughout government.

►TAX CUTS FOR 1958 now seem less likely.

Question is whether government spending will be held below ceilings, whether civilian programs will be trimmed.

Pentagon insiders say there's plenty of flexibility within defense budget itself, that funds can be reprogrammed to save tax dollars.

But point is this:

Cry to boost defense spending will grow louder as Sputnik investigations develop in the months ahead.

In addition:

President's economists are watching business activity closely.

If production and sales drop much in 1958, you can look for President to propose a tax cut to boost consumer purchasing power.

►SOME COMPANIES WILL BENEFIT, others will be hurt by Pentagon reprogramming.

While total expenditures may not rise rapidly, you can look for switching that will affect many firms.

If you're doing defense work you'll need to take a careful look at future requirements for your products or services.

Feeling is strong that simply spending larger sums won't solve administrative problems which plague military and scientific programs.

►HERE'S CONGRESSIONAL thinking on key issues:

House G. O. P. Leader Joe Martin told NATION'S BUSINESS tax cuts are not ruled out but chances are slimmer.

He predicts higher appropriations for defense and research, more exchange of scientific and atomic information with allies--if properly safeguarded.

House Speaker Sam Rayburn says committees will thoroughly investigate military and scientific spending programs.

Senate Finance Committee Chairman Harry F. Byrd says military has been given what it has asked in the past, now has billions of unspent funds.

There'll be revaluation of what is needed, he says, but he "can't imagine any increase in appropriations."

Senator predicts taxes won't be cut unless further economies are made in government's programs.

You can expect pressure for better management of our missile programs to come out of investigations.

There'll be much talk about inter-service rivalry, too, but little done.

►GO BEHIND RUSSIA'S scientific victories, take a hard look at facts.

Washington officials say facts show:

1. That Soviets have no clear military advantage over this country.

If they attack us today, we could retaliate, destroy them.

Kremlin leaders know this, will talk tough, but Washington doesn't really expect them to attack.

2. Our own missile, weapons program is off schedule, but not greatly so.

We don't have operational intercontinental ballistic missile, but neither does the Soviet.

U. S. does have large family of operational missiles, plus a stockpile of nuclear weapons and ability to deliver them.

Note: You can count on Russia to concentrate on trouble spots--Middle East, Far East--while world watches more dramatic events such as earth satellites.

►ARE U. S. BASES ABROAD now obsolete?

That's what communists want world--and U. S. people--to believe.

But Pentagon view is that they're needed as much as ever.

Reason:

U. S. bases ring communist world.

From them could be launched devastating attacks on Soviet home bases--with weapons we have in mass production.

For the Kremlin this retaliatory potential is sobering reality. Year-

long Pentagon study shows that:

Missiles won't quickly or completely replace manned aircraft.

Bases in Europe are sufficient at this time to overcome Russian lead in long-range projectiles.

But you can look for some changes in foreign bases program during the coming year as result of this study.

►THERE IS NO SIGNIFICANT scientific virtue in sending up larger satellites which go higher than Russia's.

This view is expressed by top U. S. scientist who says:

What we hope to achieve is scientific information.

Altitude assigned for our earth satellite was picked because of need for data from that level.

Weight of the ball is determined by weight of instruments needed to gather required data.

After we've gathered data from altitude of 300 miles--level assigned our satellite--there'll be need for data from greater height.

Meanwhile, U. S. scientists point out, it would be pointless to leapfrog Russian satellite--merely to achieve distinction of having gone higher and faster with heavier ball.

►SOVIET ECONOMIC PLANS for 1972 indicate that already hard-pressed Russian workers face a bleak future.

Goal for 1972 steel production:

Khrushchev envisages output reaching 100 to 120 million tons, a rise from 48 million tons now.

U. S. production this year will about equal Russia's 1972 goal.

Russia's electric power production, according to communist predictions, will rise from 192 billion kilowatt-hours to 850 billion in 1972.

U. S. utilities last year produced 682 billion kilowatt-hours, will surpass that this year by comfortable margin.

Conclusion: Russia is far behind our industrial performance now--could pull ahead in 15 years only if our economy stagnates.

►IN WORKER PRODUCTIVITY, will Russia overtake us?

Economists consider this a crucial

test between the East and West.

National Bureau of Economic Research is undertaking extensive study, will be issuing reports on various aspects during 1958 and beyond.

Here are preliminary findings:

Soviets lag in total and in per capita output.

At present U. S. worker's output is about 2½ times that of average Soviet worker in industry.

►IN FUTURE YEARS Soviet production will suffer from a growing shortage of workers.

As one result, you can expect the Kremlin to reduce size of the Red army further.

It'll be necessary to place people back in the work force.

In 5 years wage and salary workers have increased from 39.2 million to 47.9 million.

But the switch of persons from farms to industrial areas--required because of emphasis on heavy industrial production--now must slow.

There's new emphasis on farm production in order to feed factory workers.

About all the farm workers who can be spared have been moved to urban areas.

Thus, need to boost worker productivity will grow more crucial.

►RUSSIANS ARE PLAGUED with many of the same problems which bother us.

Example:

Russian embassy aide in Washington admits Soviet Union has interservice rivalry as U. S. does.

Generals, admirals don't agree, he says.

But rivalry, he says, isn't permitted to develop to extent our own has.

In addition:

Many Soviet government problems stem from growing bureaucracy.

►WHAT HAVE SPUTNIKS COST Russia?

They don't know.

Russian budget says little, means even less.

Economists here who work with Soviet budget, other data, warn much of it is sheer invention--as well as bad book-keeping.

Example: Their budget shows 604.6

management's WASHINGTON LETTER

billion rubles for total government spending this year.

Of that, 96.7 billion rubles will go for military operations.

But Soviets hide defense expenditures in such categories as education, science, social services, industry, construction.

These categories aren't broken down.

Look at these items:

Category for heavy industry, construction (103.5 billion rubles) includes building for military purposes.

Education (79 billion rubles) covers cost of operating military schools.

►FOR THE AVERAGE RUSSIAN, technological advancement is a baffling paradox.

Example:

Plowing up millions of acres of virgin lands raised total grain production from 85 million metric tons to 115 million tons this year.

But millions of tons spoiled in the fields.

Why?

Because there weren't enough trucks to haul it to bins.

►RUSSIAN PEOPLE ARE PAYING a fearful price for Russia's advancements.

Living standards of Russian workers are still pitifully low.

Experts on Soviet economy say Russians have poured most of their wealth into heavy industry, armament, scientific development.

Result: Consumer goods are scarce, expensive, heavily taxed to suppress demand.

Black markets flourish.

Although government has comprehensive controls over prices and wages, consumer prices keep moving upward.

Bread costs 3.3 times what it did at the end of World War II.

Russian worker must work 62 hours and 20 minutes to earn 250 rubles needed to buy pair of leather shoes.

►BEFORE 1917 BOLSHEVIK seizure, residents of Moscow had an average of 80 square feet of living space in homes.

Now--after 40 years of communism--they've got only 50 square feet each.

►SEEDS OF DISUNITY are becoming clearly evident throughout Russia.

Workers, peasants are increasingly irritated by comparative luxury which managerial, technical class enjoys.

Opinion in Washington is that post-Stalin era of retreat from police state terror now makes it impossible for Red leaders to move in that direction again.

Another headache for Kremlin is the rapid growth of a highly educated class of engineers, scientists.

These people are trained to think, and he who thinks asks questions.

This makes doctrinaire communism more and more untenable.

Add to the picture an increasingly protest-minded group of Soviet artists, writers, and you have the beginnings of real trouble for Khrushchev and his party henchmen.

Trouble is it's these people--who have learned to think--upon whom communists must depend for scientific advancement.

►RUSSIAN PEASANTS are being told:

Earth satellites prove there is no God. Communist propagandists are telling Russian people that religious beliefs are based on fabrications.

Here's translation of Russian radio broadcast in the Ukraine:

"Now that the will of man has opened the road to stars...it is impossible to believe the religious fabrications about God Almighty."

Soviets say they'll push this line relentlessly, pay more attention to atheistic education of children.

►WHAT OF OUR FUTURE?

Dr. Alan T. Waterman, director of the National Science Foundation, answered this question for NATION'S BUSINESS.

Here is his answer:

"Science in the U. S. today is strong, healthy.

"Our scientists and engineers compare favorably, both in number and quality, with those of other countries, including the Soviet Union.

"But unless we now step up our support of basic research and our support of measures designed to identify and train increasing numbers of talented students to pursue science careers, the strength, condition, and amount of U. S. science tomorrow will suffer--perhaps beyond rehabilitation."

Letters from businessmen



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other
company**



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Standard Fire Insurance Company

Test for businessmen

With reference to your article "Test Your Own Assumptions" [November issue] I found it to be an excellent one and with which we can all do a little self-analysis. Both the test and the accompanying article were thought-provoking and seemed to come at a time when every businessman should take the opportunity really to know himself, explore his personal and business philosophy and then take the necessary steps to coordinate them.

EBER D. JERNBERG, JR.
The Kewanee Chamber of Commerce,
Kewanee, Ill.

Why companies grow

We enjoyed reading "Why Companies Grow" in the November issue. May we have permission to reprint this article in the Executive Review . . . distributed by several Chicago firms to their customers and prospects?

HAROLD SABES
Executive Review,
Chicago, Ill.

Tops

I really appreciate your subject material and art work. In the November issue, the articles "You Can Cancel Most Meetings," "Job Analysis Saves Managers' Time," and "Test Your own Assumptions," were tops. Keep up the good work.

A. M. KNEITEL
Merchandising research
E. I. du Pont de Nemours & Co., Inc.,
Wilmington, Del.

Wonderful response

Your article "Six Steps to Executive Success," [November, 1956] met with such a wonderful response that we wish to place our order for an additional 50 copies. Please send these to us as soon as possible.

GORDON M. GARDNER
Personnel director,
Miller & Rhoads, Inc.,
Richmond, Va.

To better understanding

We read with a great deal of interest two articles in the September issue. These articles—"How to Bargain on Wages," and "Why Progress Depends on Profits," express sentiments which we have been trying to expound at our labor bargaining sessions—without results—for the

past several years. Perhaps they will help pave the way to a better understanding by labor of some of management's problems. Could you send us six reprints of each?

STANLEY E. ARONOFF
Vice president,
The Southern Plate Glass Co.,
Baltimore, Md.

Teach yourself

I have just finished reading and enjoying your article "Teach Yourself Management Skills." I would like 50 copies of this article.

K. G. IVERSON
President,
L. S. Donaldson Company,
Minneapolis, Minn.

We would like to request your permission to abstract and reproduce "Teach Yourself Management Skills" for distribution to management people within our company.

G. F. BASSLER
Director, Personnel Development,
Continental Oil Company,
Houston, Tex.

In perusing the October issue of NATION'S BUSINESS I was very impressed with the article "Teach Yourself Management Skills." I feel this is excellent training material and would ask you to kindly forward 50 copies.

J. M. MCKAY
Manager,
Hudson's Bay Company,
Victoria, B. C.

► A total of 747 business firms have asked for 16,238 reprints of this article to date. Since January 1, 23,567 firms have bought 501,942 reprints of Nation's Business articles.

Fine for problems

If you have a list of business articles for which reprints are available I would greatly appreciate receiving it, as you have published a number of fine articles dealing with current business problems.

WALTER G. KOCH
Chairman of the board,
International Steel Company,
Evansville, Ind.

Wage pressures

Reference is made to your September issue—the last paragraph of the editorial, "How to Stop Rising Prices"—which reads "or unless employers more firmly hold their ground against them" (wage pressures by unions).

I imagine that you would find dif-



One of the "pluses" in the Edsel

The illustrations here suggest that pleasure cars, radios and a modern automatic production line have something in common.

They certainly do—in fact, they combine to make one of the outstanding plus features of America's newest car, the exciting Edsel.

We have, for years, made speakers for Ford Motor Company's automobiles. While the new Edsel was still in the drawing-board stage, we were invited to submit our ideas of what a great new radio, in a great new car, should be.

Our specifications included: a *transistorized* power supply, to save space and minimize the effects of road shock . . .

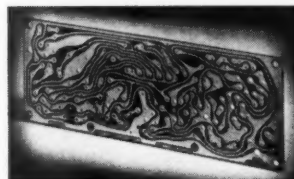
Town-and-Country tuning, optional for long-distance drivers . . . true high fidelity sound of traditional Stromberg-Carlson quality . . . and production by our time-saving, cost-reducing *automation* methods.

Result—for no more than you'd pay for an ordinary auto radio, you can have in your Edsel the name that's been a standard of audio quality for more than sixty years.

See and drive the Edsel—*it's wonderful!* And consider, too, whether Stromberg-Carlson engineering and production skills wouldn't fit one of your own company's needs.

"There is nothing finer than a Stromberg-Carlson"

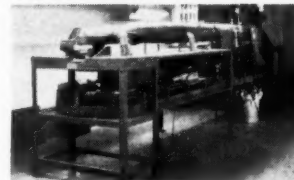
STROMBERG-CARLSON automation at work



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BLUE CROSS
gives the kind of
hospital expense protection
our employees need!"*

Says **ROBERT C. ERB**,
Chairman of the Board
Thom McAn Shoe Co.

"Its objective of giving benefits in terms of hospital care instead of money allowances means help fitted to the need. And the way Blue Cross handles a patient's case right with the hospital eliminates red tape for our employees—and for us. Our experience has convinced us that Blue Cross best meets the needs of our people."

Blue Cross Plans, serving locally coast to coast, bring Americans this famed program for prepayment of hospital care... the only one officially approved by the American Hospital Association.

SOME 300,000 companies have Blue Cross protection, and continue with it year after year. That's solid proof that Blue Cross Plans do meet the needs of management and employees.

Blue Cross cuts office detail. Local Blue Cross Plans work directly with hospitals in handling the employee's hospitalization. Management is saved personnel problems and the expense of filing claims, investigations and paper work.

Count on special advantages. Companies and employees benefit from the unique relationship Blue Cross Plans have with hospitals. It's like a partnership. Only Blue Cross Plans have official approval of the American Hospital Assoc.

Easy for employees. Whenever an employee, or his dependents, needs care, he simply shows his Blue Cross card on admission to the participating hospital. Because Blue Cross Plans serve locally, benefits are set to meet local needs and conditions. The whole aim of Blue Cross is to help people in terms of hospital care, rather than dollar allowances.

Low in cost. A not-for-profit organization, the local Blue Cross Plan sets aside all income, except for low administrative expenses, to pay for hospital care. Blue Cross Plans last year paid out over a billion dollars.

Fits your welfare program. Blue Cross is easily included in benefit "packages". Since it may be retained by individuals after they leave the company, Blue Cross may become a retirement benefit.

Specific information on how your company can benefit with Blue Cross is available. Contact your local Blue Cross Plan, or write *Blue Cross Commission, Dept. 718, 425 North Michigan, Chicago 11, Ill.*

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MILES LABORATORIES, INC.
PROTO TOOLS
SIMONDS SAW & STEEL CO.
UNITED SHOE MACHINERY CORP.



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by the American Hospital Association

ficulty in locating anyone who has responsible charge of a business whose thinking for some time has not been along the line of this editorial with the probable exception of the last paragraph. In my own case our company is too small to have sufficient effect on the general economy to make any difference whether or not we hold the "ground against them."

It seems to me that the accomplishment your editorial is aimed at must come from a major industry such as the steel or automotive industry. I am wondering what assurance you feel you could give either one of these two industries that if they would decide to hold the "ground against them" adequate support would be provided by the law enforcement agencies. It seems to me that past performance in this area of labor-management relations has been so deplorable as to require definite and positive assurance that a new leaf has been turned over before the management of any of our major industries will seriously consider holding the "ground against them."

R. T. REILLY
President,
Conley Frog and Switch Co.,
Memphis, Tenn.

For planners

A very interesting article appeared in the July issue which I want to send to members of my planning group. I need six additional copies and would appreciate your sending these to my attention at your earliest convenience. I am a subscriber to NATION'S BUSINESS and might state that I find the magazine most informative reading.

B. E. BENSINGER
President,
The Brunswick-Balke-Collender
Company,
Chicago, Ill.

For easy understanding

Your two fine articles concerning "Labor Law's New Meaning" (August), prove that such complicated issues can be put into easily digested form. Please let me know how I can obtain copies of the articles.

J. LEONARD DAY
Warner Gear Division,
Borg-Warner Corporation,
Muncie, Ind.

Still timely

Recently your excellent article "Slow Traffic Laws Waste Fast Roads" [April, 1956, issue] was brought to light again. If you have about 100 copies of this reprint, please send them to us here at Metuchen.

E. W. LAWLER, JR.
Lawler Company,
Metuchen, N. J.



ROBERT C. ERB, Chairman, Thom McAn Shoe Co., says:

*"Our 6500 employees
count on **BLUE SHIELD**
for real help
with doctor bills!"*

"Adding Blue Shield to our welfare program has provided extra security welcomed by Thom McAn employees and their dependents. The cost is very low for the benefits provided—particularly for those larger expenses incurred when surgery is needed. The fact that Blue Shield Plans have the approval of local medical societies gives us real faith in this protection."

Sponsored by doctors through their local medical societies, Blue Shield Plans help people meet surgical-medical-maternity expense.

Broad protection given. Blue Shield provides benefits for hundreds of kinds of operations and for many nonsurgical services.

Low in cost. Dues and benefits are set locally to fit local needs and conditions. This, coupled with low administrative expense, makes it possible to offer

benefits at minimum cost to members. *Saves company money* and time by direct handling of payments for care. Saves paper work and detail.

Fits welfare programs in large or small companies, and Blue Shield may become a retirement benefit.

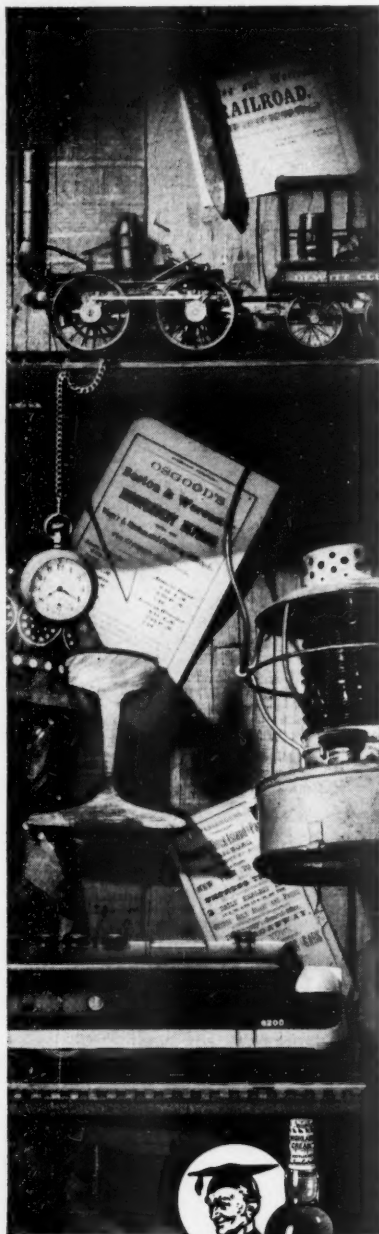
Get full facts from the Blue Shield Plan in your area. Or write Blue Shield Commission, Dept. 718, 425 North Michigan, Chicago 11, Ill.



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changed since 1830...



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of TEACHER'S
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TEACHER'S
HIGHLAND CREAM

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Schieffelin & Co., New York

**WATCH
THIS ISSUE**

Trade proposals promise conflict

Push for trade agreements
extension, OTC membership,
sparks coming debate

PUBLIC HEARINGS on foreign trade policies having widespread effect on U. S. businessmen will get under way early this month.

These hearings will be only a preview of the debate that will likely take place in the coming session of Congress. Sparking the debate will be the Administration's request for an extension of the President's authority under the Trade Agreements Act. This authority gives the President certain tariff-cutting powers which he can exercise without consulting Congress. First passed in 1934 and extended periodically since then, the authority is due to expire June 30, 1958.

Also adding to the congressional controversy will be a renewed request from the executive branch for membership in the Organization for Trade Cooperation (OTC). Since 1955, the Eisenhower team has made unsuccessful annual bids to win Congress' approval of U. S. participation in OTC. The OTC would serve as the general administrative body, or staff, for the contracting parties in the General Agreement on Tariffs and Trade, or GATT, in which the U. S. is a participant along with some 30 other countries. GATT represents a multilateral agreement for the reciprocal adjustment of tariffs and the reduction of other barriers to world trade.

Just how these two Administration requests will fare in an election-year session of Congress—already crowded with prospects of investigations into our military strength and satellite program, tax-cut drives, integration and labor activities—is open to speculation.

Setting the stage for the hearings or, as they are described, the panel discussions, is a 1,157-page compen-

dium on U.S. foreign trade policy assembled by the Foreign Trade Policy Subcommittee of the House Ways and Means Committee. The subcommittee is headed by Rep. Hale Boggs (D., La.). The Boggs subcommittee earlier asked for the views of the Administration and interested trade groups, including opponents to the Trade Agreements Act, such as the American Tariff League. These opinions make up the massive compendium.

Under the Trade Agreements Act, as amended, the President has authority to enter into trade agreements with foreign nations, in which each country makes concessions in its duties on types of imports of which the other country is the principal supplier. The executive branch contends that extension of its authority under the act is necessary in order to bargain effectively on these tariff reductions. Over the years, the executive branch has sought, and Congress has granted, extension of the authority. The President is then able to reduce tariffs certain percentages below what they were at a given date, or to raise them if necessary.

Under the act, tariffs have been reduced successively—a few of them more than 75 per cent below what they were when the act was passed. Of course, many have not been reduced at all.

Even after agreements with other countries have been made, safeguards are provided by the escape clause which permits modification or withdrawal of concessions in instances of serious injury to American business.

The act also provides for restrictions on imports in such quantities as to threaten to impair the national security. It has further safeguards



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TRADE PROPOSALS

continued

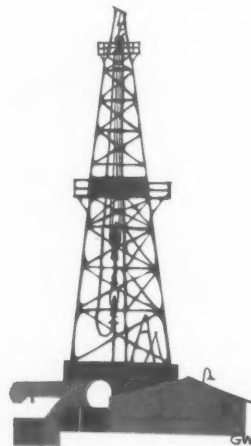
against any trade agreements that would impair the agriculture programs.

It should be noted that even if the President's authority is not extended, all existing agreements would remain in effect unless specifically acted upon by Congress.

Representative Boggs, in his letter to the President asking for the Administration's views on foreign trade, called attention to the fact that "the trade agreements program and its administration have been subjects of increasing criticism in recent years" and that, "in the present climate of public and congressional opinion, the continuance of the program is by no means assured."

The question arises, Representative Boggs says, whether the policy to "encourage a nondiscriminatory or multilateral system of trade among countries of the free world . . . is realistic in view of present conditions in this and other countries—whether, for example, such an outlook is consistent with our policies with respect to domestic agriculture and other institutional factors influencing the price system."

A congressional aide, close to the



work on foreign trade, predicts that the President's authority under the Trade Agreements Act will be extended. But he doubts that it will be extended for the five years the Administration has indicated it desires. A one-year extension, he says, is more likely. This will be a blow to the liberal trade element, he says, although from their standpoint it will be better than no extension at all.

As for membership in OTC, the aide feels there is much less likelihood of its being approved. This is

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TRADE PROPOSALS

continued

because OTC is opposed by some who, although they favor the Trade Agreements Act, are opposed to joining any more multination organizations.

Assistant Secretary of Commerce for International Affairs Henry Kearns, speaking in favor of the Administration's stand, told NATION'S BUSINESS, "Really, there are three things at stake: Trade Agreements Act, GATT and OTC."

He explained that since the country joined the GATT under authority of the Trade Agreements Act, conceivably, Congress could extend the Act with specific legislation prohibiting membership in the organization.

"I think it (the Trade Agreements Act) will be renewed," Mr. Kearns says. He believes the factors are in favor of renewal and he hopes it will be on a five-year basis. But he is not confident about a five-year extension. A five-year extension, he says, would put this country in a better bargaining position when trying to obtain reciprocal trade agreements with other countries.

Even now, the assistant secretary says, our trade agreements people are running into difficulty because foreign countries know our act is expiring.

Although Mr. Kearns hopes membership in OTC will be approved he doesn't appear to be very optimistic.

Strong opposition to extension of the Trade Agreements Act in its present form was voiced by Rep. Cleveland M. Bailey (D., W. Va.), a leader of a bloc in Congress seeking greater protection for small American producers.

The congressman told NATION'S BUSINESS that legislation will be introduced in the coming session of Congress to amend the Trade Agreements Act so as to place with Congress, instead of the President, the authority to act on Tariff Commission findings on industry complaints of excessive imports.

If the amendment fails, then, Representative Bailey says, a "straight-out import quota bill," will be actively pushed. In draft form, the quota bill would prohibit any imports from exceeding 35 per cent of domestic production.

Opponents of the import quota concept object that such a plan results in special privileges for those to whom import licenses are issued. They say that no free economic society like ours can condone making this possible.

END

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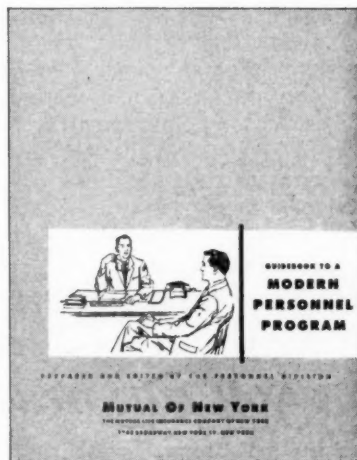
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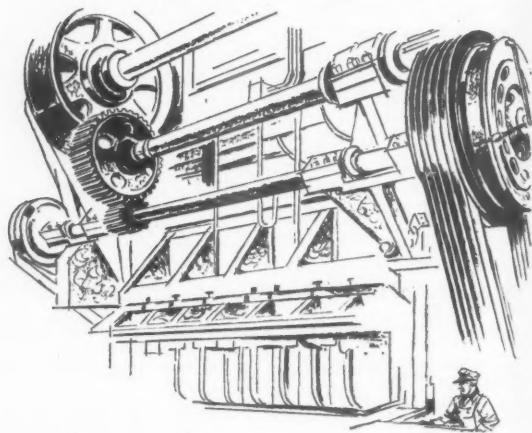
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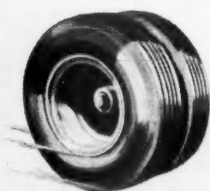
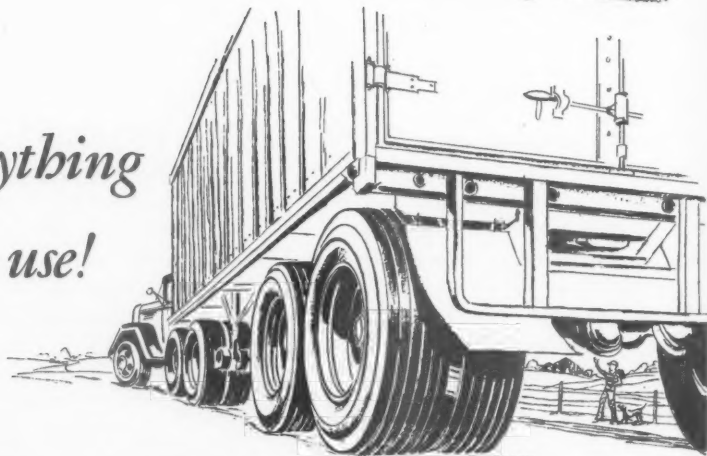
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Trends

of Nation's Business



FRED J. MARCOON

THE STATE OF THE NATION

BY FELIX MORLEY

Centralized power means end of real federal government

ON DEC. 12, 1793, just six years before his death, George Washington wrote a memorable letter to Arthur Young, the famous English agricultural expert with whom our first President was then corresponding regularly on matters pertaining to the improvement of farming.

In this particular letter Washington sought help in obtaining "respectable and full-handed" English tenants for his four big farms around the estate of Mount Vernon. The annual rental, he suggested, should be one dollar per acre.

This same land, "in the shadow of Mount Vernon" is now being developed as suburbia, but not at that price level.

The attractions now offered are also different from those set forth by Washington. He empha-

sized the "inexhaustible fund of rich mud" to be taken from the Potomac "as a manure." He wrote alluringly of the "profusion of shad, herrings, bass, carp, perch, sturgeon etc." in its waters. Potomac mud is still plentiful but pollution has dimmed the fishing around Mount Vernon. As an alternative for bathing purposes the modern realtor offers "a private cabana club with swimming pool, dressing rooms and sun deck." On the accessibility of this land to the capital of the United States, however, the promoters of 1793 and 1957 are in complete accord. In Washington's words:

The Federal City, in the year 1800, will become the seat of the general government of the United States. It is increasing fast in buildings, and rising into consequence; and will, I have no doubt, from the advantages given to it by nature, and its proximity to a rich interior country, and the western territory, become the emporium of the United States.

At the time of this letter Congress had not decided to give Washington's name to the Federal City. Even when this action was taken, the Father of his Country, with habitual delicacy, preferred the impersonal description. Others followed the example and it was not until after his death that the Federal City began to be commonly designated as Washington.

This characteristic modesty on the part of Washington, the man, has had an altogether unfortunate consequence. For when what he called "the general government" was established in the Federal City it naturally began to be called the federal

State of the nation

government, which is the universal practice today. Properly speaking, of course, our federal government is the combination of that in Washington and those of the 48 states, for it is this combination that constitutes the federal system. The state governments, centering in such local capitals as Albany, Des Moines, Sacramento or Little Rock, are all actually parts of the federal government.

Because it symbolizes the federal union, established by the Constitution of 1787, Washington was and can still be logically described as "the Federal City." But it has never really been the seat of the federal government, which from its composite nature is divided between the national and the state capitals. Washington himself, as well as James Madison and all the Founding Fathers, made this distinction very clearly. They always spoke of the political power centered in the District of Columbia as "the general government." It may also reasonably be called the central or the national government. But this centralized power should not be named, though it habitually is, the federal government.

This differentiation is by no means merely semantic hairsplitting. To realize its importance we have only to consider the confusion aroused by issues such as federal aid to education, which is actually antifederal to the extent that it threatens to deprive the states of that local control in this field which is one of their least contestable constitutional functions. What we really mean by federal aid is national aid at the expense of state responsibility. When we so describe the issue, in education or other matters, it is much more clearly posed.

Confusion is compounded by giving the title of "federal-state relationships" to the important studies, now under way, of the appropriate divisions of function and taxing authority between the national and the state governments. The hyphenated phrase implies that the states are somehow apart from, or even antagonistic to, our federal system. Yet if the states were eliminated, federalism would be eliminated with them. What we mean by federal-state relations is simply and briefly federal relations. But the practice of calling the central government "federal" has led us into contorted language, which inevitably brings contorted thinking in its train.

One may be inclined to say, with poor love-sick Juliet: "What's in a name?" Does it really matter if we speak of federal government when what we mean is national government? Granting the misuse of words, is the meaning confused thereby?

The answer here is that the meaning is probably

much more confused, and more dangerously so, than is realized. Even in the case of common nouns inseparable associations become attached. There are certain succinct Anglo-Saxon words which cannot possibly be used in polite society. If Romeo had logically called Juliet his poison ivy, in response to her fatuous observation about the smell of roses, it would have ruined her argument and the play as well.

Nobody would deny a place to poetic license. But there is no room for it in the effort to define abstract political ideas, as conveyed by words like "federalism" or "democracy" or "liberty." If a political system assumes a precise understanding of these abstractions, as ours does, then the habitually careless use of descriptive political words can only serve to undermine that system. Knowing this, the communists cleverly distort words of this character to further their long-range ends. It makes less than no sense for us to do the same.

• • •

The net effect of calling our national government federal is to create the impression that the steadily increasing centralization of power in Washington is in complete accord with our federal system. Anybody who has read the Constitution knows that this is not true. But how many Americans today have actually given serious consideration to their organic law? How many college graduates, even, have considered what is so clearly implied by the Tenth Amendment, saying:

The powers not delegated to the United States by the Constitution, nor prohibited by it to the states, are reserved to the states respectively, or to the people.

This amendment was designed to summarize what the original Constitution as a whole spells out in detail—the intent of the Founding Fathers to build a federal republic in which specified powers would be delegated to the general government, while all powers not so delegated would be protected from centralized usurpation. To call this general government *the* federal government in fact suggests that any effort to keep the federal structure from becoming overcentralized is somehow antifederal. That is the reduction to absurdity.

Regardless of what individual or collective mistakes may have been made, the tragic story of Little Rock is in no small part attributable to the widespread confusion as to what constitutes our federal government.

There would have been far less bitterness if it had been possible to emphasize the constitutional rather than the racial aspects of the problem. That the former grow more cloudy while the latter sharpen is not a sectional but a national concern. And we all contribute to the difficulty by using political words carelessly, sometimes even with the purpose of arousing passion rather than of conveying precise ideas.



Photo by Richard Bockrath



The very next day after the Smith Brothers submitted loss proof on their hardware store in Hamburg, N. Y., Hardware Mutuals check for \$38,917.00 was delivered to them.

“How would you like this kind of Christmas rush?”

ask Frank and Albert Smith

“We have an efficient fire department here in Hamburg, New York. Minutes after the alarm was turned in, they sped to our hardware store in full force. But no use. Our stock and fixtures were completely gone... the building extensively damaged.

“And mind you, this all happened on December 18th—the height of our Christmas rush business. We immediately notified Hardware Mutuals. And we were mighty happy to see their man arrive with their check covering the loss on our building and stock.

“We would have been much happier, though, had we gone along with Hardware Mutuals advice to take a *Business Interruption Protection* policy. This would have paid us for the amount of business we lost during the

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This year, for the first time, The Franklin Institute's coveted George R. Henderson Medal—awarded for achievements in research in railroad technology — was *not* given to an individual inventor or engineer. It was awarded to an association—the Association of American Railroads.

This award honors the contributions made by the Association's Mechanical and Engineering Divisions to the advancement of railroad safety, progress and efficiency.

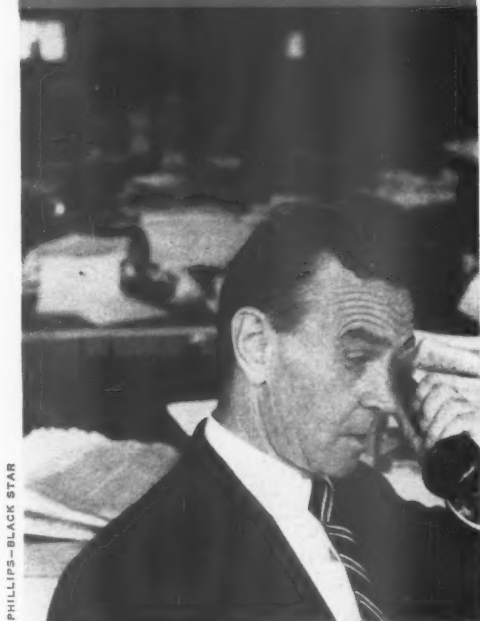
These contributions are reflected in 92 patents which have resulted from the Association's research. Currently, the Association has some 96 projects under way at its research center on the campus of the Illinois Institute of Technology in Chicago. And it is planning additional facilities to expand this research.

The railroad industry will continue its scientific research to provide transportation service that is constantly increasing in efficiency and economy.

ASSOCIATION OF AMERICAN RAILROADS
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Trends

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PHILLIPS—BLACK STAR

WASHINGTON MOOD

BY EDWARD T. FOLLIARD

Washington reassesses strength of U.S. as Sputnik foreboding eases

WHEN CHARLES E. WILSON was Secretary of Defense, he would sometimes get impatient if asked whether the Russians might be forging ahead of the United States in military weapons.

"After all," Mr. Wilson would say in effect, "the Russians are not 10 feet tall."

Mr. Wilson seemed to have a point there. It must be reported, however, that the Russians have grown mightily in the eyes of many people here in the past two months. This is especially true of the Russian scientists who have beaten us into space and into "the age of tomorrow." Some of the more

agitated are now ready to believe that the Russians are capable of anything, even the establishment of outposts on Venus and Mars.

Ironically, many of those who have fallen into this mood were once scoffers at all things Russian. They looked upon the Soviet Union as a primitive, backward nation which could never hope to compete with our own, one that had to depend upon spies and stolen blueprints to catch up with the United States on the A-bomb.

Their chagrin in the face of Russian scientific triumphs inspired a sardonic bit of humor at the Pentagon. After Sputnik I had been launched, a story went the rounds that the Soviet moon switched its radio signal over Washington from "Beep, beep, beep" to "Haw, haw, haw."

The lofting of Sputnik II, a much larger device carrying a dog, evoked some humor too. However, it was rather feeble. By this time there was real concern in Washington, a sense of foreboding that the city had not known since Pearl Harbor. Senate leaders hurried here to make plans for a searching inquiry into America's missile program.

• • •

For the first time in 12 years, it was realized, the United States was seriously challenged—perhaps even topped—in a field where it was supposed to be supreme, the technological-industrial field, the world of gadgets and know-how.

For the first time, too, President Eisenhower was under fire in an area where his partisans had argued that he was without a peer—military planning and national defense. The soldier-statesman was accused of having been off guard, of having fallen down in leadership, of putting economy ahead of security.

I got the feeling, in watching and listening to him back in October, that President Eisenhower was disappointed in some of his countrymen, that he felt that they had gone overboard in their anxiety over Russia's scientific exploits. An optimist by nature, always bullish on America, he has no patience with those who give in to discouragement. One of his favorite remarks is, "Pessimism has never yet won a battle."

That he was much less upset than others about Russia's war-making potential was evident in his remarks at news conferences. It was even more evident in a little talk he gave in toasting Britain's Queen Elizabeth at the White House while Sputnik I was circling the earth.

"The Free World's assets are so much greater than those of our potential enemy (Russia)," he said in his toast, "that it is ridiculous to compare their brains, their abilities in science . . . with the combined total of the Free World. . . ."

Those who felt less optimistic than the President set up a clamor that forced him to plan a series of speeches in which he promised to tell Americans why they had "a right to confidence" in the coun-

Washington mood

try's scientific progress, its defense program, and its prosperity.

The question that Washington—and doubtless the whole country—was asking in advance of the first of these speeches on Nov. 7, was this: Where did the United States stand with respect to the intercontinental ballistic missile (ICBM)?

Russia had claimed to have such a weapon, and Nikita Khrushchev had boasted that it could be fired to any point on the earth.

Significantly, the President did not try to match the Russian claim. He might have had the ICBM in mind when he acknowledged that the Russians quite possibly were ahead in the development of some missiles. The only claim he made for an American ICBM was that it was in an advanced stage of development.

Some time before this, in talking to reporters, the President conceded that the Russians might have a rocket powerful enough to launch an intercontinental ballistic missile. But he said he doubted that they had perfected the missile; that is, that they could make it go just where they wanted it to go—land on a target. Until they could do that, he said, the projectile could not really be called a weapon.

In the midst of the bewildering Buck Rogers stuff that is now filling the air, one reassuring thought comes from the Pentagon and the White House: In this tail end of 1957, the United States still tops Russia when it comes to delivering a nuclear punch.

That is to say, our Strategic Air Command remains a far greater threat to Russia at the moment than anything Russia can throw at us. How long this will be true is, of course, conjectural. The day may come when, as Khrushchev says, piloted bombers will belong in the museum. But that day has not yet arrived, and our most excited alarmists don't see it arriving for at least several years.

President Eisenhower had the Strategic Air Command in mind, along with the striking power of the Navy, when he said that, although Russia might be ahead in some missile areas, America and her allies certainly had the greater over-all military strength.

"Our nation has today, and has had for some years," he said, "enough power in its strategic retaliatory forces to bring near annihilation to the war-making capabilities of any other country. . . . Long-range ballistic missiles, as they exist today, do not cancel the destructive and deterrent power of our Strategic Air Force."

The key words here are "as they exist today." The President and his advisers are assuming that

the Russians are not yet able to get intermediate and intercontinental missiles to go just where they want them to go.

Our top military men acknowledge that the Russians might be able to use long-range missiles as area weapons, and thereby cause great destruction and loss of life. But that, they say, could not be counted on to win a war at this stage.

The Russians, they insist, are not likely to start an all-out war unless they are reasonably certain that their long-range missiles or bombers can catch our Strategic Air Command bomber force on the ground and destroy it. Because, unless SAC is destroyed by accurate blows against its bases, they say, the Russians would seal their own doom by loosing the admittedly superior American bombers against the Soviet homeland.

This is not only the view of the White House and the Pentagon; it is also the view of Sen. Stuart Symington of Missouri, Secretary of the Air Force in the Truman Administration and one of the harshest critics of the Eisenhower Administration in the matter of national defense.

Senator Symington thinks that the United States is at least two years behind Russia in the field of long-range missiles, but he says:

"It is fortunate for ourselves and our allies that the Soviets know as of today that if they dare launch an attack against the United States, America's Strategic Air Command can in turn destroy Russia. This capacity of SAC is the great current deterrent to an all-out war."

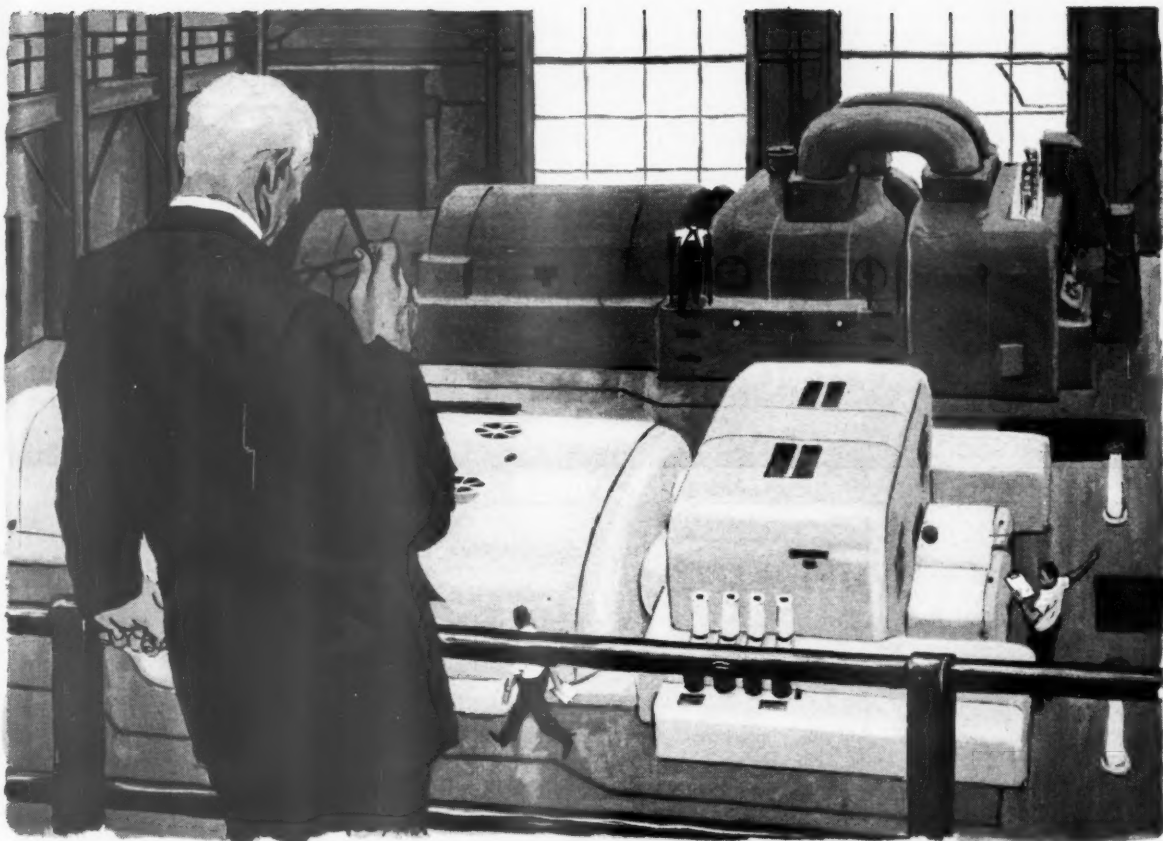
As has been said, nobody knows for certain how long it will be before the Russians can fire an ocean-crossing missile and lay it right on the target. In whatever time is allowed, the United States will not be idle.

The American missile program, now directed by Dr. James R. Killian, president of the Massachusetts Institute of Technology, will move full speed ahead, with orders from President Eisenhower to try and wipe out any advantage the Russians may have achieved.

Our scientists and engineers will not only be working to develop the intercontinental ballistic missile; they will be striving also to perfect an anti-missile missile—that is, a projectile that will seek out and explode a long-range missile in the air. They are pretty confident that they will succeed, too. That is why they scoff at talk about the ICBM being the ultimate weapon.

In his series of speeches, President Eisenhower is going to devote at least one to the economic situation.

His view is that the economy is "taking a breather." He rejects the idea that a depression is ahead for us, and says that it is a time for chins up.



Does your boiler and machinery insurance help prevent breakdowns?

Travelers Boiler and Machinery insurance goes to work for you right away. Skilled Travelers accident prevention and loss control experts are available at 105 offices across the country to inspect your insured equipment regularly.

These men have an industry-wide reputation for anticipating possible equipment failures. (Over the years The Travelers has spent more than 100 million dollars on accident and fire prevention services.)

But machines do break down. And the results are often disastrous. That is why The Travelers maintains 251 claim locations to give you quick, on-the-spot

service wherever and whenever an accident occurs.

The Travelers promptly pays the cost of repairing or replacing the damaged property. If you've included Travelers Business Interruption or Extra Expense insurance in your program, we also pay your fixed costs, continuing expenses and normal profits or extra expenses until your plant is back in production. Result: your income is protected.

For fifty years The Travelers has been underwriting and servicing boiler and machinery risks. Why not put this experience to work for you? See your Travelers agent or broker for full details.



YOU WILL BE WELL SERVED BY

THE TRAVELERS

INSURANCE COMPANIES, HARTFORD 15, CONNECTICUT

All forms of business and personal insurance including
Life • Accident • Group • Fire • Marine • Automobile • Casualty • Bonds

Part No.	Description	QTY	UNIT	PRICE	TOTAL
1724	Cover	1	EA	1.00	1.00
1725	Bracket	1	EA	1.00	1.00
1726	Arm	1	EA	1.00	1.00
1731	Stud	1	EA	1.00	1.00
1736	Bracket	1	EA	1.00	1.00
1739	Shield	1	EA	1.00	1.00
1734	End Plate	1	EA	1.00	1.00
1700	Bearing Plate	1	EA	1.00	1.00
1731	Shaft	1	EA	1.00	1.00
1733	Spacer	1	EA	1.00	1.00
1730	Cover Plate	1	EA	1.00	1.00
1807	Window	1	EA	1.00	1.00
1810	Lever	1	EA	1.00	1.00
1816	Sealing	1	EA	1.00	1.00
1823	Pinion	1	EA	1.00	1.00

by Remington Rand
DIVISION OF SPERRY RAND CORPORATION

DIVISION OF SPERRY RAND CORPORATION

This marketing plan builds profits

Examples show steps that will
achieve more efficient selling

WITH HIGHER BREAK-EVEN points and lower profit margins, more efficient selling becomes an increasing factor in profits. Fortunately, some things can be done right now.

Because weakness in coordination of the many different functions of a business loses a lot of potential profits, improved coordination offers an immediate means of protecting profits without major changes or investment all along the line.

Coordinated marketing requires coordinated information. Executive management must determine where and how to sell the product to obtain optimum profit as well as volume. If the sales manager and the advertising manager have up-to-date information regarding what constitutes a profitable customer, and where this customer is located, they can expend their sales efforts toward the profitable volume trade customers.

Manufacturer and jobber have analogous problems. Each contends with wide variations in both volume per customer and profit per dollar of sale.

The statements made here are based upon market research in many parts of the country, analysis of volume and profit patterns for products as different as drugs, groceries, tires, oil and gas, building materials, cosmetics, floor coverings, men's furnishings, chemicals and electrical products; and special studies of U. S. Census of Distribution data.

This research shows that:

As much as half or more of the total cost of selling, handling and servicing was expended against customers affording little volume and no profit.

These companies were under their potential with the profitable volume customers. A small improvement in their position would return more tonnage (and more profit per dollar of sale) than achieving the highest possible share of the business of the inherently unprofitable accounts.

There were wide variations between the distribution of their advertising and promotion and their profitable volume market patterns. Mar-

Marketing

continued



1/2 THE TOTAL COST
OF SELLING, HANDLING
AND SERVICING IS
SPENT ON CUSTOMERS
WHO YIELD NO PROFIT

keting effectiveness could be greatly increased without cost by redirection of personal selling effort and promotion to concentrate upon the trade customers offering the most profitable volume; and by selection of advertising media to cover the consumers who purchased from these desirable customers.

Most companies already have the facts that could be coordinated to guide sales and advertising effort toward the profitable markets. Many factors influence profitable volume. Two of the most important are:

- What are the specifications for a profitable transaction? For a desirable customer?
- Where is the best opportunity for desirable customers by size of community? By geographical location?

How well the product meets the customer's needs in an ever changing market obviously affects all other points, but presumably this need not be emphasized.

Profitable transactions

What are the requirements for a profitable transaction and a profitable customer?

These are key and frequently obscure factors in profits.

Every business is simply the repetition of a comparatively few typical transactions. These include: direct shipments from factory; branch warehouse shipments delivered from local stock; customer pick ups; broken package; unit package; case; carload; small orders; large orders; single items; multiple items; special material.

Each type of transaction has a minimum dollar cost covering selling expense plus everything from the time the order is received until the customer's payment is deposited in the bank—conversion to company order forms, editing, posting in different accounting records, credit approval, warehousing, shipping and collection.

Percentages or average figures for these costs are inaccurate. For small unit price merchandise, the minimum handling cost alone is a major factor in profit. It varies little for orders of a quarter of a dozen or a gross; ten pounds or a ton.

For example, analysis showed the minimum dollar handling cost for a manufacturer of drug and toilet goods to be about \$5—and more than 60 per cent of company transactions afforded no profit or an actual loss.

The minimum handling cost for a manufacturer of industrial supplies was \$12, and about half of the transactions afforded no profit.

It cost a manufacturer of grocery products \$3.50 to make a direct delivery; 40.5 per cent of his deliveries were unprofitable and afforded only 10 per cent of the volume.

A manufacturer of electrical supplies was losing money on half of his transactions, breaking even on about 20 per cent—with all of the profit coming from 30 per cent of the transactions.

Jobbers' costs are usually only a little less than those of the manufacturer.

Profit dilution by high handling costs is a growing problem. Studies of similar types of businesses, made 20 or more years apart, show that minimum handling costs for typical transactions have increased substantially in relation to customer volume of purchase.

The so-called small order problem is not new. Much has been done about it, particularly in packaging and pricing. In many cases, however, it has not been studied in proper perspective against a framework of all the factors creating the condition.

After determining the dollar cost of typical transactions the next step is to trace unprofitable ones to their source.

Profit per dollar of sale is influenced by:

- What customers buy, the mix of items with varying mark-ups.

- How much they buy, total volume.
- How they buy, frequency and size of orders.

In turn, how they buy is influenced by:

- Where they are, availability of sources of supply.
- Credit.

The importance of specific answers to such questions was shown by a study of the purchases of two customers who bought practically the same volume of goods from a certain manufacturer.

One customer was a secondary dealer in a large city with the warehouses of many manufacturers and jobbers easily available. He kept stocks as low as possible. It was easy to call a supplier in the morning and ask for quick delivery.

The other customer was one of the better merchants in a local trading center of 10,000 population more than 100 miles away. He placed regular stock orders and asked for few rush shipments.

In the manufacturer's opinion the first dealer was more active and more profitable than the second. Sales records showed salesman's time and traveling expense, but handling cost was averaged and not allocated by customers.

When the average and percentage cost were replaced by actual dollar costs, however, a different picture appeared. Analysis showed that the first customer's 283 orders brought in a dollar purchase total of \$5,650, and that actual dollar costs to the manufacturer totaled \$900. For the second customer, with 59 orders valued at \$5,530, cost to the manufacturer was only \$213.

It became clear to the manufacturer that the operating profit for the second customer was \$925 as against \$226 for the first. The larger expense for salesman's time and travel to sell him was more than compensated by larger sales per call and lower handling costs.

Neither volume nor size is synonymous with profit. Studies of many different types of businesses, manufacturer and jobber, have developed definite market patterns of volume and profit. These can be defined by size and type of customer; by size of community and geographical location. Once defined these basic patterns change slowly and in degree but not in principle.

Basically these studies show that as the total volume of business declines—the sale per call goes down, handling costs per dollar of sale go up—profit per dollar of sales decreases very fast. Customers whose total purchases are small are likely to order even more frequently than large customers because they keep stocks inadequate for credit reasons.

The proportion of unprofitable outlets varies for different products, but is higher than most sales records indicate. For the companies studied, half or more of the larger city outlets were unprofitable. As high as three quarters were unprofitable for a manufacturer of house furnishings and also for a manufacturer of toilet goods selling direct to retail outlets.

The proportions changed little by size of community.

Usually, some transactions from all sizes and types of customers are unprofitable. However, some customers are inherently profitable and some unprofitable. Unprofitable business should be recognized and, if accepted, taken as a matter of policy rather than because of ignorance.

Some currently unprofitable accounts can be salvaged. Changes in methods of distribution, packaging and pricing have helped. In one case analyzed, the customer was buying a substantial total volume but was still unprofitable—sending in a flood of small orders and telephoning for emergency special truck shipments.

Credit was sound and he had been growing rapidly. The fault was internal inefficiency—lack of inventory controls, haphazard ordering methods and failure to estimate

(continued on page 48)

WHAT MAKES A DESIRABLE CUSTOMER



Not only how much
he buys, but

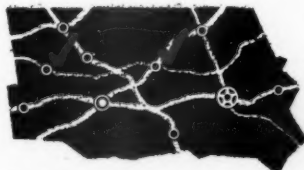
What he buys -
the mix of items with
varying mark-ups

How he buys -
the frequency and
size of orders

HOW YOU FIND HIM



Cost accounting to
establish specifications
for a profitable customer



Sales and market
analysis to locate him
geographically and by
size of community

HOW BUSINESS MEETS MONEY NEEDS



New study of motives, attitudes and procedures shows factors that enter into solutions of financial problems

By George Katona *Survey Research Center, University of Michigan*

NEW STUDIES suggest that changes in interest rates may well have little effect on business borrowing and investment.

This is one of the findings developed when the Survey Research Center of the University of Michigan applied to a study of business motives, attitudes and decision-making procedures, some of the methods perfected through its extensive experience with consumer surveys.

In the past most business research has consisted in obtaining and analyzing more and more business records. The people who direct business enterprises were disregarded. Their knowledge, their motives, their attitudes and expectations, and their methods of procedure in making decisions have been considered to be intangibles, outside the scope of scientific studies.

The Survey Research Center in its business survey used a different technique:

Representative samples of medium-size and large business firms were compiled, and interviews lasting two to four hours were conducted with

top executives of the selected firms. Financial decisions and practices were discussed in the interviews. Data were obtained on the frequency of certain business practices as well as motives, opinions and expectations. Descriptive material was collected to add to the understanding of the interaction between attitudes and behavior.

Two representative samples were drawn, one for firms of \$1 million to \$9 million net worth, and one for firms of roughly \$10 million net worth or more. Financial firms, such as banks and insurance companies, were not included.

Studying whether rising interest rates restrict business borrowing and investment is, of course, much narrower than inquiring whether monetary policy is an effective weapon against inflation.

First, the study was not concerned with the effects of rising interest rates on consumers and governments. In passing it may be mentioned, however, that recent consumer studies cast considerable doubt on the opinion that higher interest rates

greatly stimulate family saving. Similarly, it appears doubtful that a small increase in costs makes many consumers abstain from installment buying, while it appears probable that rising interest rates do influence mortgage borrowing and therefore purchases of homes.

Second, we exclude from consideration the recent indications that the internal liquid funds of many firms have become less ample. Because internal funds are the principal sources of business investment, investment activity may decline irrespective of what happens to interest rates.

Finally, we are not concerned here with the effects of substantial jumps in interest rates, or of unavailability of money when would-be business borrowers are turned down flatly. The recent changes in the cost of borrowing can hardly be regarded as large changes; because of corporation income taxes, only one half of the increase in interest is felt as an effective burden. Our studies have been restricted to large and medium-size firms for which credit has not become unavailable. We have no data on the effects of tight money on small business.

Yet, in analyzing the impact of moderate increases in interest rates on large business firms, the new study casts doubt on the general validity of the classic economic proposition that "the higher the interest rate, the smaller the volume of business borrowing."

The study revealed that many business executives have deep-seated

Interviews with 250 top business executives on factors in financial decision-making provided Prof. George Katona with material for his recently published book, "Business Looks At Banks" (The University of Michigan Press, \$5). Collaborating with Professor Katona, director of the economics program at the Survey Research Center, were Albert Lauterbach and Stanley Steinkamp. From his study of business behavior, Professor Katona prepared the accompanying article for NATION'S BUSINESS.

convictions about borrowing from banks which appeared to influence their practices and which hardly change in the short run due to changes in interest rates.

Four types of convictions of attitudes were found to be common today among American businessmen. The first of these was found to be closely related to not borrowing from banks.

Approximately one fourth of medium-size as well as large firms have not borrowed from banks since World War II. Many of these firms have what they call ample liquid funds and their executives say that they need no external funds. Yet need for funds is not absolute; some executives constantly search for new projects and thus discover additional uses for funds, while other executives perceive no uses for funds and therefore do not need to borrow.

In the most extreme cases abhorrence of debt was the underlying reason for the policy of not borrowing. Often the father and grandfather of the present owner or president, or his predecessor, established a tradition which is often expressed by arguing "Debt means worry" or "Debt means dependence." Those who use internal funds only feel that they have fewer problems and are freer in their actions.

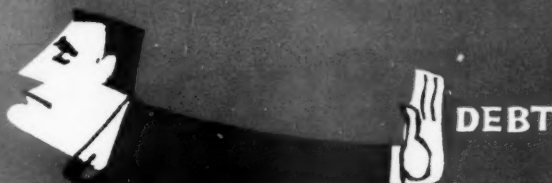
Another substantial proportion of business executives holds that bank credit, being short-term credit, can and should be used exclusively for short-term, self-liquidating purposes. Seasonal credit, especially to build up or carry inventories, is accepted as a natural and justified use of external funds. Similarly, bank credit may serve to finance sales or credit to customers, for instance through discounting receivables. Executives holding such opinions usually restrict the use of bank credit to what is called providing working capital. Borrowing from banks for this purpose often becomes a matter of routine which does not require approval by the board of directors.

Willingness to borrow only for short-term purposes implies that certain funds are segregated and earmarked for specific purposes.

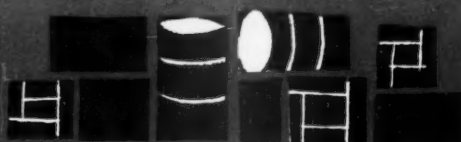
A third basic attitude is that borrowing from banks should be resorted to in anticipation of accrual of internal funds from depreciation reserves and undistributed profits and should enable the corporation to make expenditures ahead of that accrual of funds (or ahead of long-term financing).

This attitude often justifies the use of short-term bank credit for long-term purposes. Distinctions between short- and long-term funds
(continued on page 69)

Business attitudes toward borrowing



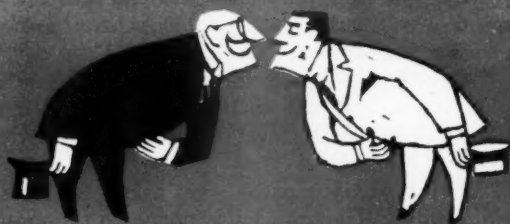
Many firms do not borrow from banks. Some say they need no external funds, others find debt abhorrent



Some feel bank credit use should be only short-term, and self-liquidating; for inventories, financing sales



Third group borrows in anticipation of accrual of internal funds from depreciation reserves, undistributed profits



Executives who believe "Business consists in using other people's money" borrow for investment

'58 OUTLOOK

1958 will match 1957

Businessmen tell Nation's Business their views on profits, sales, costs, prices, jobs

MOST BUSINESSMEN expect 1958 to be a good year for the U. S. economy.

That's indicated by the results of a **NATION'S BUSINESS** poll of several hundred executives in key positions in a wide variety of industries.

The majority of the men taking part in the survey look for conditions in their lines to be better in 1958 than they have been in 1957, or at least as good.

Here are some other important findings:

- ▶ Sixty-nine per cent of the survey participants anticipate a one to 20 per cent increase in their companies' sales in the year ahead.
- ▶ Eighty per cent expect employment in their firms to rise or to continue at present levels.
- ▶ Eighty-five per cent say their firms will spend to expand productive capacity in 1958.

The survey also covered the views of business leaders on such questions as the outlook for labor wage rates, profit per dollar of sales, obstacles to business expansion, and growth prospects for their industries over the next five years.

While the views of the individual executives vary somewhat, most of those taking part agree that excessive taxation, inflation, relentless union pressures for wage increases and the scarcity of capital are the biggest roadblocks to business growth at this time.

The optimism which the survey reveals is in rather sharp contrast with some recent gloomy predictions about the level of business in the year starting next month.

The survey participants were asked to answer 13 questions. The questions applied to the man's own company or, where indicated, to his industry.

The executives contacted are in the following fields: manufacturing, retailing and wholesaling, construction, transportation, communications, utilities, finance and insurance, mining, and services.

Almost 75 per cent of the participating executives were presidents, vice presidents or board chairmen.

Others included vice president-treasurers, comptrollers, assistant comptrollers, general managers, economists, secretaries, controllers, and assistant secretaries.

In the text which follows you will find a summary of the answers to each of the 13 questions.

1 Industry conditions will be

BETTER THAN '57	ABOUT THE SAME	NOT AS GOOD
34%	49%	17%

The majority of executives see conditions in their industries improving or continuing at about present levels through 1958.

In manufacturing, response is divided almost equally between those who see improvement next year and those who expect conditions to be about the same.

The same can be said of responses from executives in the fields of finance and insurance, wholesale trade, utilities, transportation and mining.

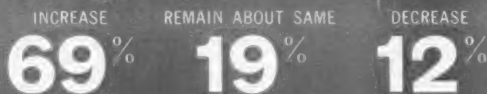
In three industries—mining, communications, gas and electric utilities—nearly everyone sees 1958 turning out as good as or better than 1957.

Of those who believe business will turn down next year most are in manufacturing.

(An interesting feature of the survey is the fact that it shows that even within a single industry opinion is diverse.)

No executives in the fields of service, construction or retail trade indicated that they expect conditions in their industries to be better in 1958 than they have been this year. All replying from these fields expected '58 to be about as good or a little worse.

2 Company sales will



Confidence dominates the outlook for sales.

In manufacturing, most respondents look for sales to increase next year.

In finance and insurance, all replies indicate sales will rise in 1958, none anticipate a decrease or continuation at present levels.

In mining, expectations are divided almost equally among the three categories.

In transportation, none foresee a decrease in sales. Answers for this industry are divided almost equally between an increase and retention of this year's level.

Response was light from the communications field. Those who replied expect a sales increase. This also was the case for utilities.

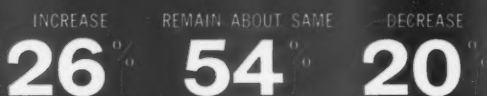
In construction, none expect a sales increase and response was divided about equally between a decrease and continuation of the current level.

Most retailers predict an increase in sales in 1958. The same is true of wholesale trade and the service field.

Average indicated increase: 7.14 per cent.

Average indicated decrease: 10.1 per cent.

3 Employment in 1958 will



Most executives taking part in the poll expect employment in their companies to continue at about the 1957 level.

In manufacturing, replies were divided fairly equally among all three answers, with the majority forecasting that employment either will remain about the same or decline.

Executives in finance and insurance are about evenly split in predictions that employment in their firms will rise or remain about the same.

In mining, most expect no change in employment.

In transportation, there is an almost even split among the three suggested choices.

Response from the communications field is entirely for an increase in employment.

Utility and construction officials see no change.

Retailers divided their answers among all three possibilities.

In wholesaling response was fairly even for all categories. All respondents in the service field foresee employment continuing at the present level.

Average anticipated increase: 4.48 per cent.

4 Will you spend to expand capacity?



Plans to invest in expansion of productive capacity are a good measure of business confidence in the long-term future.

The NATION'S BUSINESS survey shows that most businesses have such plans, and will be carrying them forward in 1958.

In manufacturing an overwhelming majority of executives replying state that their companies will spend to expand capacity.

The same is true of executives in finance and insurance, mining, transportation, communications, utilities, construction, retail trade, wholesale trade, and services.

Looking ahead to next year, government officials estimate that industry spending for plant and equipment will taper off somewhat.

Such expenditures in 1957 are expected to total about \$37 billion. That will compare with \$35 billion in 1956 and \$28.7 billion in 1955.

On page 38 you will find a discussion of the capital spending outlook by Frederick H. Mueller, assistant secretary of commerce for domestic affairs.

5 Will tight money affect your expansion plans?



Tight money—the scarcity of risk capital—did not loom as much of a problem, even before the Federal Reserve Board's recent move to relax credit.

The only industries in which executives felt that tight money might cut back the size of their planned expenditures were manufacturing, transportation, construction, retail trade and wholesale trade.

Even in these industries—except construction—only a small percentage of executives saw tight money as a problem, compared with executives in the same industries who predicted no effect as a result of tight money.

In construction the returns were divided equally between those who felt that the capital situation would have no effect on their plans for expansion in 1958, and those who believed that tight money would force cutbacks.

Those who were affected by tight money regarded it as a serious roadblock, as shown in another section of this survey (page 37). In surveys by NATION'S BUSINESS a year ago and in mid 1957 tight money emerged as a big problem.

6 Price of our products or services will

RISE	STAY ABOUT SAME	DECLINE
40%	57%	3%

In manufacturing, response is divided almost equally between a price increase and continuation of present levels. About three per cent expect a decline.

In finance and insurance most respondents predict continuation of the present price level through 1958. One per cent anticipates a decline.

In mining, opinion is weighted heavily on the side of prices remaining at their present level.

Replies from the transportation industry split three ways. Most expect a rise; a somewhat smaller percentage foresee extension of the present level.

In communications a price rise is expected.

In gas and electric utilities all respondents predict continuation of price levels at about the 1957 level.

In construction replies are divided equally between a rise and continuation of the present level of prices.

In retail trade most executives expect the price level to remain about the same. None foresee a decline.

In wholesale trade and the service field all forecast a continuation of prices at about the present level.

Average estimated price increase: 3.68 per cent.

Average estimated price decline: 2.33 per cent.

7 Our profit per dollar of sales will

RISE	STAY ABOUT SAME	DECLINE
28%	51%	21%

Most executives look for their companies' profit per dollar of sales to remain about the same in 1958.

In manufacturing there is an almost even split between a rise and a continuation of profit per dollar of sales at about the 1957 level. A few forecast a decline.

In finance and insurance most expect "about the same," with a split between the other choices.

In mining none foresee a decline; most, a rise.

In transportation most expect profit per dollar of sales to stay about the same as 1957. Second choice is for a rise. Eleven per cent look for a decline.

In communications the outlook is for a rise.

In the utility field all executives predict a rise.

In construction most men expect about the same.

Retailers predict continuation of profit per dollar of sales at about the same level as in 1957. Others divide almost equally between a rise and a drop.

In the wholesale trade field the majority predict about the same level.

In services opinion is almost equally divided between those anticipating a decline and those who expect conditions to remain about the same.

8 Our labor costs will

RISE	STAY ABOUT SAME	DECLINE
70%	28%	2%

This question was aimed at labor costs, not just wage rates.

Most company officials expect costs to rise.

In manufacturing the majority look for a rise in labor costs. Some foresee about the same level. Very few expect a drop.

In finance and insurance, response is heavily on the side of a rise in labor costs. None anticipate a decline, and only a small percentage expects about the same level as 1957.

In mining most executives see a rise. None expect a decline.

In transportation and in communications all forecast an increase.

In the utilities field response is split between an increase and retention of the present level.

In construction all respondents predict an increase.

In the retail trade field most men look for a rise. No one anticipates a decline.

In wholesale trade response is divided almost evenly between a rise and continuation of the 1957 level.

In services the same is true.

9 Will you start a cost-cutting program in '58?

YES	NO
82%	18%

Evidence of the profit squeeze is reflected in the high number of responses indicating that cost-cutting measures will be put into effect next year.

The recent downturn in some lines of business has stimulated interest in cost-reduction programs generally. (See "Here's Way to Cut Costs," NATION'S BUSINESS, May, 1957.)

In manufacturing, about 75 per cent say their companies will institute a cost-reduction program.

In finance and insurance, the replies are divided between plans to institute such programs, and no plans.

In mining only a small percentage say their firms will move to reduce costs through special programs.

In transportation most executives say cost-cutting programs will be instituted.

In communications all replying say such programs are in the works.

In utilities, construction, services, and retail trade all plan cost-cutting moves.

In wholesale trade all but a small percentage plan to launch special economy drives.

10 How much will you spend for research and development?

MORE THAN '57 SAME AS '57 LESS THAN '57
39% **42%** **3%**

Replies to this question point up the growing belief in industry that a company makes its own future through what it puts now into research and development of new products or processes.

(Because some companies say spending for research and development is a factor not applicable to them, the answers do not add to 100 per cent.)

In manufacturing those executives who see research and development as something that affects their firms say, for the most part, that they will spend more in 1958 for this item than they did this year.

In finance and insurance most say their companies will spend about the same. None see a drop.

In mining answers are split among the choices.

Most transportation officials expect to spend about the same next year. None expect to spend less.

In communications all expect to spend more.

In the utilities field response is divided equally between those who expect to spend more and the same. In other categories response is divided fairly evenly between an increase over 1957, or about the same. None plans to spend less.

11 By how much will your industry expand its volume over the next five years?

1 TO 15% 16% OR MORE
44% **56%**

Most executives in the manufacturing field look for the volume of their industries to increase by from six to 20 per cent in the next five years.

In finance and insurance most respondents say their volume will mount by from 11 to 20 per cent.

In mining there is a broadened division in the estimates—from six per cent to more than 31 per cent. The largest single segment for this industry: 16 to 20 per cent volume increase.

There was no response from communications on this question.

The utilities anticipate volume growth exceeding 31 per cent.

Construction executives forecast increases of from one to 15 per cent.

Most retail trade executives feel their volume increase will fall into the range of from one to 20 per cent.

All wholesale trade respondents say 16 per cent or better.

In services the estimates range from 11 to 20 per cent.

12 What one roadblock, if removed, would be most helpful in expanding your business?

Answers to this question range all over the lot.

But a number of factors—notably excessive taxation, tight money, inflation, curbs on unions and personnel scarcities—are mentioned frequently.

One respondent, president of a machinery manufacturing concern, combines two problems into one: "The biggest single roadblock to expansion in our business," he says, "is the need for stable labor conditions that would halt continued inflation."

"Tight money and recessive psychology" is the response of an executive vice president of a heavy durable goods manufacturing company.

The chairman of an automatic merchandising firm blames "extremely wasteful government spending."

The president of a railroad cites the "lack of opportunity of doing business on equal terms with competing transportation agencies."

Inflation is a predominant worry of insurance men.

The secretary and general manager of a general contracting firm says the biggest roadblock to expansion of his firm's business is "The high cost of money and in many instances the non-availability of money."

13 What will be your biggest personal problem as a manager in 1958?

Here, as in the previous question, responses vary widely according to the respondent's position, his industry and his firm's position in an industry.

Many executives, however, agree that finding and developing competent managerial and technical personnel for their companies will be perhaps their biggest problem in the coming year.

The president of a hotel chain says his biggest headache will be "fighting increased labor costs."

The vice president-controller of a utility answers: "Limiting wage increases to productivity gain."

"Selling our securities at an adequate price," is the reply of the president of a telephone company.

A vice president of a life insurance company answers: "In my own area (investments) the biggest problem will be the estimating and stabilizing of cash flow and its allocation into various channels."

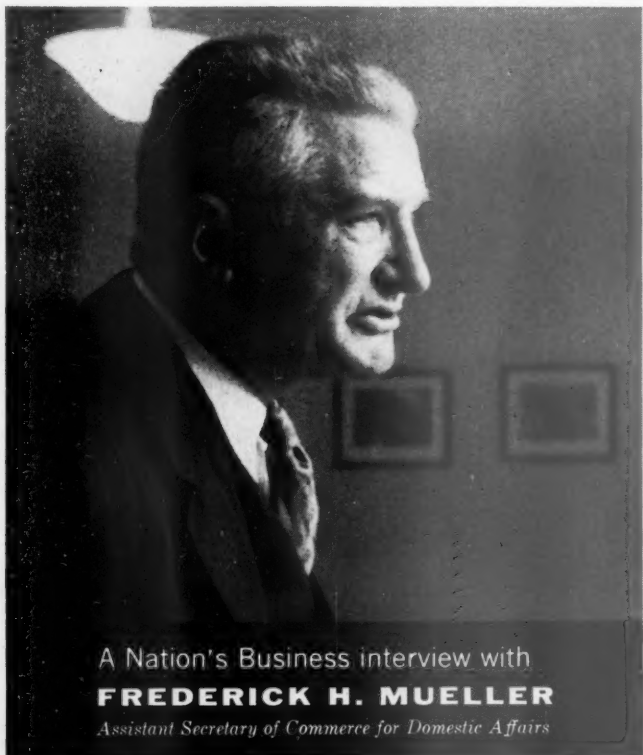
Expense and cost control are mentioned by a number of executives in different lines.

The most interesting answer is given by the treasurer of an apparel manufacturing company. He says: "My biggest personal problem will be staying alive."

'58 OUTLOOK

Next boom three years away

Washington official discusses prospects
for business, tax cuts, federal spending



BOB PHILLIPS

A Nation's Business interview with
FREDERICK H. MUELLER
Assistant Secretary of Commerce for Domestic Affairs

Mr. Mueller, what is the business outlook?

The outlook, in my opinion, is not nearly as gloomy as some businessmen seem to think. There are problems ahead for many companies; that's true. But business, over all, is really determined in the final analysis by what is sold over the counter—total retail sales and services.

Retail business is appreciably ahead of last year. Even allowing for price increases, we are still ahead, volumewise. That certainly doesn't indicate a drop-off in demand for goods and services.

Do you expect that to continue through 1958?

Granting a continuance of high employment at high wages, yes, that's what we expect. At the moment I think we are having a sideways movement. But again I refer to the fact that retail trade has kept up at a tremendous rate. People are employed at the highest wages they have ever had and more of them are working.

From the planning viewpoint, the rate of capital spending for business expansion has tapered off, but the actual volume is still near the peak.

There are areas and industries that are affected and it is hard to talk optimism to people in those in-



Something dramatic placed
on the market could help
buoy up the whole economy



Prospect of tax reduction
could be a good stimulus
to economic progress

dustries when they have not reaped the benefit of prosperity.

If, however, further cutbacks should decrease employment in 1958, you may see a drop in the rate of spending. But we do not expect a material decrease in employment.

Economists from all categories of business, discussing the outlook here in Washington with me, are about equally divided as to whether there will be a downward movement in 1958 or an upward movement. I look for a small increase in total volume. The economy is in such a situation that, if something dramatic were introduced, it could quickly cause a big upturn in business.

For instance, a revolutionary new car could cause a rush to buy. A really fine color television set at the present price of black and white sets might help to do the same thing. This, in turn, could cause other sectors of the economy to raise their sights. I use these merely as examples—no criticism of the automobile or television business is intended.

The point is this: If something dramatic were to be placed on the market, the rush to buy could buoy up the whole economy and spark a new boom.

Have we reached the peak of the present inflationary trend?

I think inflation has been arrested

for the time being. The long-range outlook in the minds of some people is that creeping inflation will continue. I hope that we have arrested it so that we can adjust values. It is disturbing and discouraging to people who have been conservative over the years to find that the value of the money they thought they had saved has gone down in purchasing power.

Is there a possibility of more creeping inflation in the years ahead?

There is a possibility. But, barring war or an emergency of that character, I doubt if we shall see any tremendous upsurge of inflationary pressures.

In the event of a serious downturn next year, what would the government do?

In my opinion a tax cut would be a most probable antirecession stimulant. It certainly would be one of the factors that would create new confidence. I do not believe, however, that we are going to have what I would call a recession.

Do you see prospects for any recession of magnitude as far ahead as you can see?

Let's put it this way. Business always has its ups and downs. I don't

think you can be Pollyanna and, looking as far ahead as you can see, say that business will always increase at a constant rate. You have different situations in different industries. It's hard for anyone to say that a product or service which is profitable today will continue profitable all the time—it may even be displaced.

But on the whole—over the long range, with ups and downs—the trend is upward. In my opinion, recessions—if they can be called that—are more likely to be sideways movements rather than downturns.

Do you see prospects for a tax cut in the near future?

If that question had been asked of me earlier this fall the answer would have been yes—but subsequent events have possibly changed the situation.

We have an expanding economy—an expanding economy at a high level of wages and profits producing more taxes.

I have thought that even at lower rates we could have the same, if not greater, tax income.

Moreover, I believe that the prospect for tax reduction would be a considerable stimulus to economic progress which in turn would create additional business.

However, this may be risky to undertake under present urgent demands for adequate defense.

Do you expect plant and equipment spending to continue at \$37 billion or higher during 1958?

That is difficult to determine at this time. Spending for new plant and equipment in 1955 was \$28.7 billion. It was \$35 billion last year and will average about \$37 billion this year.

New technology and new methods as well as replacement of worn-out facilities will still require large investments—how much I can't answer definitely, but it will probably taper off for the immediate future.

Do you think industry has overspent for expansion?

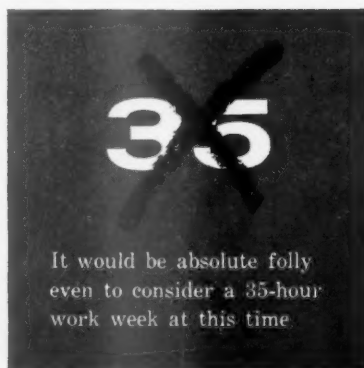
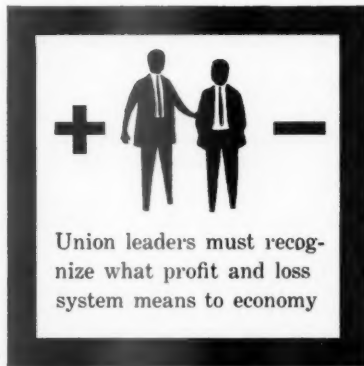
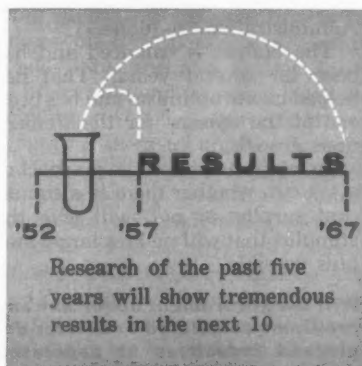
Possibly in certain fields, but on the whole, no.

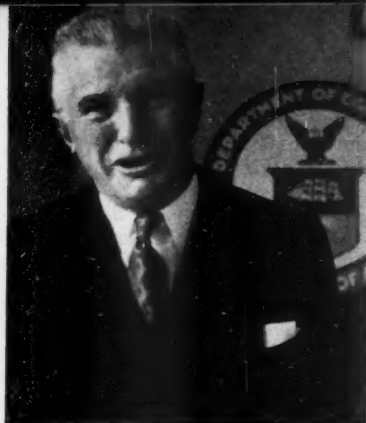
Looking just a few years ahead we see a tremendous expansion in business. With that expansion, these facilities are going to be needed.

How do you account for this uncertainty?

Probably because of at least two factors.

1. The cost of money has deferred some programs—plans deferred with the hope that in the next few months





NEXT BOOM

continued

or in the next year or so rates might be a little lower. On that basis the costs over a long period would be less.

2. The other factor is a normal caution because of the individual's own outlook on the immediate future and probably the desire to conserve the present situation.

Has the profit squeeze had anything to do with that?

Apparently it has. The fact is that profits as such have not increased over the years as other factors in our economy have increased. We are doing more and more business and yet the total profits of the economy have not increased.

Profits as a proportion of national income have actually declined.

Will the profit squeeze continue?

I believe that the economies that are indicated by automation and other cost-saving techniques will bring about a return to a better profit ratio. That may be a long time off. We must have profits in our economy in order to increase our plant capacity for the great surge that will come when the new crop of children comes to marriageable age.

I can't see anything but a tremendous upsurge three or four years from now.

This upsurge will be due to population growth?

And also to research. A large proportion of our production is of things that were more or less unknown 25 years ago and to some extent 10 years ago. Those materials or products have been developed as a result of research.

In the past five years we have spent more money in research than we did in the previous 20 years.

Research is a long lead-time process. It takes years to get the results of research into production so that,

if the past is any indication of the future, the results of the research of the past five years will be tremendous in the next 10 years.

Today people are more and more research minded, not only basic and product research but research into marketing methods determining the most efficient manner of distributing the goods of our factories.

Therefore, a company caught in a profit squeeze could improve its prospects for better profits in the future by getting into research, finding new products and new uses, as well as new processes.

You were in the furniture manufacturing business. Can you apply this to that business?

Most of the furniture plants of the country are small. They have not felt it possible to spend any large amount in research individually. However, through the National Association of Furniture Manufacturers, they have cooperatively conducted research on better machinery, better processing, better gluing methods, better finishing. They have enlisted the aid of several universities such as the University of Michigan, the University of North Carolina, and their laboratories and techniques.

No business, then, needs to lack research?

That's right. It is my contention that every business organization, no matter what its size, should devote some time to research in its broad sense. Every organization should be thinking about how it can improve itself, how it can better its products or its services. Someone should be thinking about that, creatively.

With wage costs rising, profit margins declining, taxes high, how can business find the money to finance research?

Research is an expense and comes out of operating expenses before taxes. Different types of business require a different degree of research. For instance, in the pharmaceutical field or the chemical field anyone will recognize that a considerable portion of income should be spent for research.

An economist for a pharmaceutical concern told me recently that, 10 years from now, 75 per cent of their business will be in products unknown today.

You can go to the other extreme and say, what research can a retail store conduct? Display, sales techniques, instruction of the sales force. You may say that is not research. Well, it is a result of research by larger organizations of one kind or another which are more than willing to be of help.

Mr. Mueller, what will happen to government spending in the year ahead?

There is a determined effort in this Administration to hold spending at no more than its present level.

We are now preparing the 1959 budget for the President. He will present it to Congress in January. We are making every effort, scrutinizing every item, to hold spending down. One thing, however, must be remembered: Large amounts of the money the Administration spends are beyond our control. I refer to interest on the debt, the farm program, veterans benefits, and other programs.

Will funds for research other than missiles be curtailed?

No, I rather feel that research will be given even greater emphasis. The missile field is not necessarily the ultimate. We shouldn't lose sight of the fact that there are other areas where research should continue at the same rate and even at an augmented rate.

I am a great believer in research. I think it is the greatest thing that we have to insure progress.

How much budget surplus do you think would be required to justify a tax cut?

Conservatively, of course, we must be assured that we are going to balance the budget.

I think that has been one of the great things that the Eisenhower Administration has done.

The budget is balanced and has been for several years. That has helped create optimism and has been one of the reasons for the tremendous growth.

In my own opinion the prospect of a tax cut, whether there is a significant surplus or not, will give the stimulus that will make a larger surplus possible.

Will the government undertake any programs calculated to bolster depressed industries or depressed geographic areas?

We have a program that is aimed to help local areas help themselves—mainly by inventorying their assets and potentialities and then "selling" their communities to industry.

It is our objective to augment this program.

I believe the chief federal responsibility is to maintain a favorable climate. I have great faith in the individual American businessman, his ingenuity and his ability. I don't think that industry wants to be

(continued on page 92)

Sen. McClellan weighs labor probe impact

Senate investigator sizes up what his committee is uncovering and what you can look for



FRED J. MARCOON

An exclusive interview with **SEN. JOHN L. MCCLELLAN**

Chairman, Select Committee on Improper Activities in the Labor or Management Field

Senator McClellan, what do you consider to be the most significant types of improper activities revealed by the Senate committee so far?

There are many:

The lack of democratic processes in the governing authority and administration of union funds.

Misuse of union funds (including pension and welfare funds) by appropriating them to nonunion purposes, often for personal use and profit by union officials. This includes raiding the union treasury by withdrawing and spending large sums of cash without obtaining vouchers, invoices or receipts, and simply charging them to organizational expenses.

Extortion, collusion and bribery—selling protection to management; granting favorable or “sweetheart” contracts, and compelling payoffs to crooked union officials. This is frequently accomplished by blackmail or a form of organizational picketing.

Coercion and intimidation, use of violence, injury to property and persons, and threats of physical harm to employers or members of their families. (This is the area in which paid goons and thugs operate.)

The imposing of trusteeships on local unions and continuing them indefinitely, frequently naming unreformed ex-convicts and known criminals as officials, business managers, or trustees of local unions.

The calling of strikes or making sweetheart contracts without a vote or approval of union members.

Secondary boycotts.

What kind of legislation do you feel is needed to correct the situation?

Legislation is needed in all of these areas, the specifications or details of which cannot be spelled out in this brief reply.

How and when will your committee make its report or findings? Will it recommend specific legislation?

The committee expects to make an interim report next January. It hopes to recommend specific legislation in some of the aforementioned areas at that time.

Will legislation definitely be passed next session?

Yes—not all that may be desired or advisable, but surely some progress will be made.

Could you summarize the ground your committee has covered thus far and what activities you plan to cover in the future?

The committee has inquired into but has not concluded its investigation in these fields:

Labor-management collusion. Undemocratic union practices. Misuse of union funds. Control of labor organizations by racketeers. Extortion, robbery, violence, bribery and organizational picketing. Phony locals and improper activities by management to prevent organization.

The committee plans to inquire later into political activities and the use of union funds for that purpose.

How long will it take the Senate committee to complete its work?

The committee will not “complete” its work, but we shall try to conclude its work in 1958.

Would you favor a permanent committee of this kind as a sort of watchdog?

The committee may, in its final report, recommend the establishment of a permanent committee vested with continuing investigative powers.

What can union members and other employees do to protect their interests?

Attend union meetings and report to their international officers and to some agency designated by Congress any improper actions of their officers.

How can unions and union officials help correct the situation?

I think all unions should (continued on page 87)

PINpoint personnel strength

Organized program to review
managers at all levels helps
both the men and the company

A CONTINUING REVIEW of your company's human resources will strengthen the entire organization, now and in the future.

A major manufacturing company has developed a program for periodic review of its managerial staff that gives promise of going a long way toward assuring fulfillment of these two goals:

► The fullest development of the individual, to his and the company's benefit.

► Efficient performance of the group, whether it be a single department or the whole company.

To keep today's businesses running efficiently, top management must know the strong and weak spots in the personnel make-up, who will fill future vacancies, where these vacancies are likely to occur and why, the hot-shots and slow-starters in an organization, and a multitude of other facts concerning the busi-

ness. These same basic problems confront all business ventures, small as well as large.

As an aid to solving such problems, American Cyanamid Company mapped out a comprehensive program for reviewing its supervisory, managerial and technical personnel, from the lowest level on up. The company says this is just one phase, however, of an over-all effort to develop managers from within and to strengthen the entire personnel structure. But this portion of the program has stirred interest at managers' meetings and personnel conferences each time a part of it has been discussed.

Cyanamid's approach to solving the problem of helping management review its organization strength includes a factual analysis of the people in the organization and a review of each individual to estimate his potential, where he is going, and what he needs to get there. The task is being tackled on a divisional and

departmental basis, usually by assigned divisional personnel, assisted by the corporate personnel staff.

The company's personnel officers often refer to the two parts of the program as organization analysis and personnel development. But, as one executive pointed out, "Actually . . . they are two ends of the same string, because you can't strengthen your organization without developing your people and you can't develop the ability or effectiveness of your people without improving your organization."

Cyanamid management points out that the program is actually more of a process at this point than a program since it is constantly being revised. Also, it is a process that can't be rushed, they say. It takes time. So far, Cyanamid has not completed a review of all its operating divisions.

This project, which is company-wide, stemmed from an announcement by K. C. Towe, now chairman of the board of Cyanamid. Mr. Towe, formerly Cyanamid's president, listed the four major objectives of the program as:

► Finding the qualified men within the company for consideration when vacancies occur.

► Speeding up the development of management personnel and assisting them to function more effectively in their present jobs.

► Aiding in identifying and preparing enough back-up men for key management jobs so they will be ready to move up successfully when the need arises.

► Assuring management people that their opportunity for growth is company-wide, that they will be considered for vacancies which may arise in other divisions or functions as well as their own.

The primary step in making a review of a divisional organization and its people is to take a complete inventory of all the persons who will be included in the program. The inventory provides top management with an estimate of the company's human resources by accumulating complete information on each person in the management structure.

Individuals fill out a detailed experience record that includes personal background and family status, education, outside interests and activities, ambitions and future work interests, detailed work experience before joining the company, and an important section on work experience since coming with the company.

After the questionnaire is completed, the information is coded on

How charts can reflect strength and weakness

**Age and Salary distribution
Company A**

SALARY RANGE	OVER 60	55-60	50-55	45-50	40-45	35-40	30-35	UNDER 30	TOTAL
\$1000 & OVER	3	3		4	3	2			15
900-1000			1	1	2	1			5
800-900		1	3		1	3			8
700-800	1	1		3	3	4			19
600-700	3		1		3	4	12		24
500-600						1	5	2	10
400-500				1				7	9
300-400								3	3
TOTAL	7	5	10	10	13	15	21	12	93

Company with grouping in this area may have a real personnel bonus. These men are in upper income brackets and relatively young.

Company should watch that their progress isn't blocked

An upward trend such as shown in this hypothetical company can indicate real strength. The arrow emphasizes a forward movement of salary in relation to the men's advancing age

Watch this area. If older managers are still in lower income range, company should find out why

IBM cards so that in a matter of minutes statistical information can be gathered on all of the managerial staff.

Each year a manager's folder is updated with a supplementary questionnaire. Such things as changes in marital status, health and new responsibilities and skills are noted.

In addition to their use in statistical analysis for the various divisions and other corporate matters, the IBM card system plays an invaluable role in internal placement within the entire corporation.

Cyanamid management believes that one of the best ways to encourage people to develop is to provide them with tangible proof that opportunities exist throughout the company for growth and promotion.

Moreover, by providing an IBM sorter system, managers in the various divisions who are seeking personnel with specialized skills can in a short time have a company-wide talent search made for them.

By the use of the cards, "we can find out in a matter of seconds—if we want to—all the managers who have Ph.D.'s in biology and speak Hindustani," says Murray Owen, Manager of Personnel Relations.

The morale implications of the work of the internal placement system are far-reaching.

Former plant manager Reuben Hock, who heads the internal placement section, says:

"When the people out in our offices and plants in areas such as Boston or as far away as New Orleans see that someone has been thinking about them and that they are not out in no man's land away from the home office, this is a tremendous aid to us in making placements throughout the company. People aren't afraid to move around because they know they are not going to be lost in the shuffle."

This also follows Mr. Towe's philosophy of cross-fertilization—that is, moving men across divisional and

even functional lines in order to give them broad experience.

Review of individuals

The core of the program—review of the potential of the individuals involved—is accomplished by talking with the supervisors of each man. In the process, starting from top to bottom, every man in the managerial category is reviewed.

For this reviewing, Cyanamid uses as an unopinionated third party a personnel relations staff man, because managers seem to talk more openly to an outsider. The staff man sits down with the manager, listens to his opinions of the persons who report to him, and of any others with whom he may have working relationships.

In making the reviews, staff people are guided by four basic rules:

1. **Make the review orally.** There is a practical reason for doing this. To write a review of a dozen persons
(continued on page 90)

HOW TO INTERPRET FORECASTS

Economic data can be misleading. Here are pitfalls and suggestions for avoiding them

THE BUSINESSMAN'S job of looking ahead is more difficult than usual today because opinions on the future are varied and often contradictory.

Fortunately he has more data to help him than ever in the past—and more people to interpret the data for him. Some of these data are highly useful and some people have had great success in using them. But an approach that yields satisfactory results one time may not yield equal results another time. Few if any methods are always safe.

Most of the statistics, indices and data available to all of us present pitfalls in their ordinary day-to-day use.

Familiarity with some of these pitfalls will make us better aware of the hazards in our own predictions and those of others. We will all make better decisions as to where we are and where we are going if we know in which cases the hazards are great and when they are small.

The dangers lurking in economic data are illustrated by the 1954 prediction that we were headed for a depression. This famous failure in economic prediction was based in considerable part on the assumption that construction costs were so high that few could afford to build.

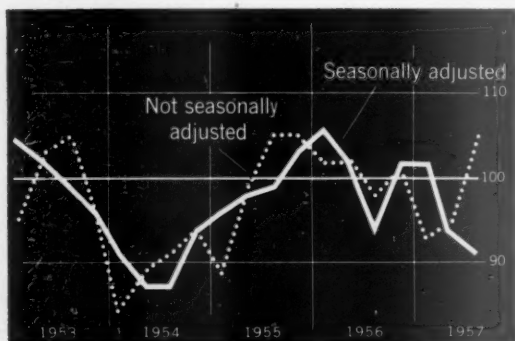
The pessimism resulted from failure to understand

the construction cost index and the methods that were used in preparing it.

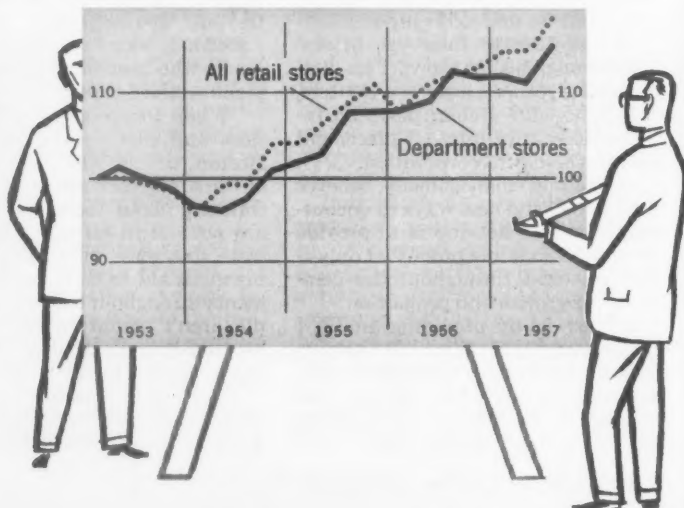
The construction cost index of the government reflects the price of cement, brick, lumber, steel, skilled labor, and the other components of construction. But it does not necessarily reflect the efficiency with which these items are brought together. It may include little allowance for change in design, change in specifications, any change in managerial skill or in margins.

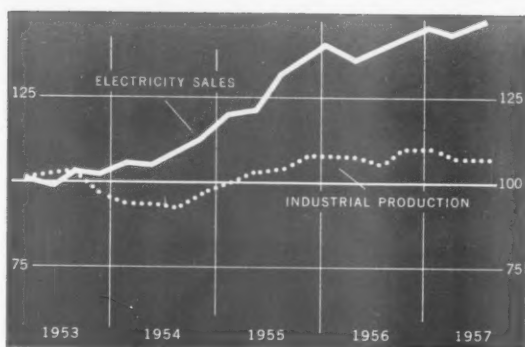
To be accurate, it would have to allow for such trends. The Bureau of Public Roads published a study of its costs some time ago which showed that, if its index were based on an unchanged weighing of material and labor as are other construction cost indices, its index would be about double what it is. In other words, improved managerial skills had cut the cost of building highways roughly in half, on a constant dollar basis. Careful examination of other construction costs indicates that, in terms of services rendered, other facilities supplied at today's prices also may give more service per constant dollar than similar facilities provided 10 years ago. A building may—and almost certainly does—cost more per square foot but improvements in design, in specifications, and in the equipment using the space provided

Some figures are seasonally adjusted, some are not. How this changes the picture is shown here with carloadings



Changes in retail and department store volume may reflect bad weather as well as consumer buying moods





Data can be a valuable help in decision-making if one is sure what the statistics mean. To compare 1957 food sales figures with 1956, for instance, it is necessary to know that the Census Bureau changed both the method of sampling and the reporting system between the two reports

by construction, may result in greater output of goods or services per dollar spent for construction than was provided 10 years ago.

The failure of price indices to allow for changes in service or of quality is illustrated again in the machinery index. This index, published by the Department of Labor, indicates that the cost of most machinery has almost doubled since the end of the war. But the productivity of many new machines has more than doubled. A machine that cost \$10,000 in 1945, and turned out one unit per hour then, may cost \$20,000 today and turn out three units per hour. Today's machine, therefore, may be cheaper than the machine of a decade ago, even though the index calls it twice as expensive.

Indices, therefore, may be dangerous to use. But, for certain purposes they can be used with confidence. For instance, if the cost of living index goes up .2 per cent in a certain month, it may be possible to predict the amount by which hourly wages will be raised because of our knowledge of the number of contracts tied to the BLS consumer price index, and of the way in which they are tied to this index.

But it is not safe to conclude that the cost of living or the volume of consumer expenditures went up .2 per cent. The index may have gone up in part be-

cause prices of automobiles, as it was reported, went up four per cent. The new automobile may be worth six per cent more than the old and last 10 per cent longer and have 10 per cent smaller maintenance bills. It may actually cost less to use than the old automobile. Nevertheless, the index goes up. Even if people decide that the new cars are too expensive and do not buy them, the index still goes up. If, as is more likely, the cars are bought at the higher price, not much more than one per cent of the families will be affected in any month. The index goes up anyway as do the wages tied to it.

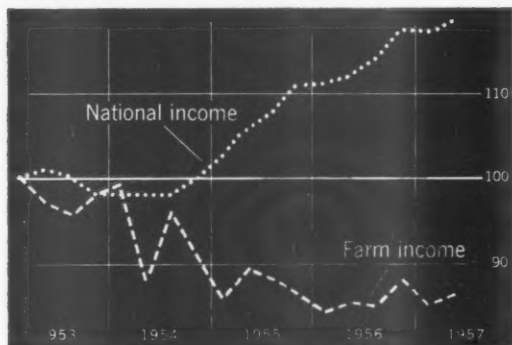
It is easy, therefore, to take indices too seriously. Unless one knows what is behind a reported rise in any figure, unless he is sure it means what it appears to mean and is sure it will have the effect he believes it will have, it is dangerous to reach a specific conclusion, or to accept the conclusions of others.

Other figures offer similar hazards.

As the Bureau of the Census is a major source of government data, let's examine a simple report, say on the number of families and their incomes. This report is basic because the economy is serviced by, and services, families. If the number of families stops growing, or if their incomes stop growing, our current situation and our future

(continued on page 54)

Farmers may be underrated as customers if income figures do not include income from nonfarm sources (25 per cent)



Sales of electricity may look like more industrial production if other growth factors are ignored



HOW'S BUSINESS? today's

An authoritative report by the staff of The Chamber of Commerce of the United States

AGRICULTURE

Another record output seems assured for the dairy industry in 1958 for the sixth consecutive year.

In spite of production increases expected to exceed any consumption increases, the outlook for dairy farmers' income is slightly better than this year's estimate of \$4.6 billion. This is due largely to continued government price supports and purchases.

The huge supplies of cheap feed grains will provide the most favorable milk-feed price ratio of recent years. Department of Agriculture estimates suggest that price levels would have to be about 70 per cent of parity for several years to move all production into consumption. The legal price support minimum is 75 per cent of parity, with current levels at 82 per cent for manufacturing milk and 79 per cent for butterfat.

The production-consumption imbalance is further aggravated by the price-cost squeeze, application of modern technology and changing consumer preferences and tastes. The steady decline in number of milk cows is offset by more production per cow in the hands of fewer but larger and more efficient dairy farms. Moderate per capita increases in consumption of fluid milk, cheese and frozen desserts have been slightly more than offset by less demand for butter, evaporated milk.

CONSTRUCTION

A composite opinion of construction analysts sets the 1958 construction outlook at a little better than '57—two per cent up in physical volume; five per cent up in dollar volume, with the three per cent difference lost to construction customers via wage inflation.

Projections are based on these assumptions:

That the sputter over Sputnik will not vastly increase net spending for defense; and that the Federal Reserve Board will treat tight money problems with about the same medicine as used in 1957.

Prospects for housing are considered somewhat better—expected to top total 1957 starts by five per cent. Evidence of increasing savings and a diminishing of competition for loanable funds encourages this view.

A slight decline in industrial and commercial construction—about five per cent in physical volume—is anticipated. Dollar volume is expected to be off proportionately.

Educational and institutional construction demand remains high and is expected to generate a five per cent increase over 1957 physical volume.

CREDIT & FINANCE

Business is in a period of continuing readjustment. There are strong indications of continuing high levels of demand for most goods and services, but there are growing indications that industrial production is leveling off.

Squeeze on profits will continue; business capital outlays may slacken, state and municipal government expenditures are expected to continue at slightly higher levels.

Consumer spending has been somewhat reluctant, but current trends are pointing toward an acceleration of spending rates over the next six months. Consumers have also been saving at a greater rate than during 1956.

Treasury bills are selling at about 3.5 per cent with bond prices showing some tendency to decline slightly. Stocks suffered their most serious tumble since April, 1955, during the month of September and early October. Renewed confidence brought stock buying levels up during the past month.

DISTRIBUTION

December should ring up a Christmas record of \$20 billion in retail sales. This will be a dollar-volume increase of about three per cent over December, 1956.

This is assuming that consumer confidence holds up through the month and that retailers don't get caught short at the last minute by cautious buying.

Favorable factors are:

1. Population increase of well over 2 million since the first of the year.

2. A \$13 billion rise in gross national product since last December.

3. Disposable personal income is up to a rate of \$303 billion for the third quarter, as compared with \$289 billion for the same 1956 quarter.

4. Personal consumption expenditures for the third quarter increased to \$283 billion, as against \$269 billion in the third quarter of 1956.

5. Total retail sales are running nearly six per cent over last year for the first 10 months.

Negative signs are: recent signs of rising unemployment, the recently tapering off rate of consumer spending in relation to after-tax income, the 2.6 per cent rise in the BLS Consumer Price Index over the past nine months tends to offset a big portion of the dollar-volume gain.

FOREIGN TRADE

Less developed countries indicate they will make an intensified effort toward improving their investment climates.

Their impatience for rapid development was demonstrated when representatives from more than 50 foreign countries attended a recent conference on industrial investment in San Francisco. They look mainly to the United States for assistance.

Private investments abroad last year are estimated at about \$5 billion, which is the gross capital expenditures by all U. S. investors, including the reinvestment abroad of foreign currency earnings. Between 35 and 40 per cent of this amount was invested in underdeveloped areas.

Investments made during 1956 brought the stated total value of U. S. private investment abroad to a level of almost \$33 billion.

outlook

GOVERNMENT SPENDING

The President's 1959 budget is now receiving its final touches. A large part of the President's meetings this month will be on budget matters, to determine the practicability of staying within the \$70 billion previously announced as the goal for next year.

While it is too soon to assess the full effect of the Soviet Sputniks on the budget, there have been indications that the Administration does not favor a crash missile program at the present time.

Despite attempts to place the responsibility for research and missile problems on economy measures, it is apparent that the lag in this area was not the result of lack of funds. Rather, it is felt that poor management and rivalries between the several services have been the primary factors.

It will be necessary for the President and the Bureau of the Budget to reevaluate the entire budgetary situation this month with new appraisals of the relative emphasis to be given nonmilitary programs and the extent to which the areas of research and missile development need improvement.

LABOR

The plight of businessmen involved in labor disputes is unlikely to be resolved in the near future, as union terrorism and lack of a forum to settle labor disputes makes the operation of many businesses an increasingly hazardous proposition.

Today's businessman must often face not only economic coercion, but physical coercion as well. An employer in Flint, Mich., subjected to picketing, bombings, and an attack on an employee, finally signed a contract with a Teamster local without a vote of his employees, in order to stay in business.

Supreme Court "pre-emption" decisions have largely denied the right of states to intervene in labor disputes where an employer's business affects interstate commerce, even where it is apparent that the NLRB would not exercise jurisdiction. As a result many employers have no forum and, consequently, no remedy.

State labor boards in Connecticut, New York, Oregon, and Wisconsin have been forced to decline juris-

diction in labor disputes, although knowing that neither party to the disputes have any other recourse.

NATURAL RESOURCES

Industry and government will meet this month to search for some answers about the future market for uranium. Although the Atomic Energy Commission says it will hold the line now on uranium buying, the government's purchase program terminates in 1962.

Jesse Johnson, AEC raw materials chief, says no new expansion will take place in production of uranium concentrates, and that future development and production should not assume the current market always will be available. He says, however, that no cutback on present government buying rates is imminent.

The government buying program has provided attractive incentives for uranium exploration and development. Private investments are large. The industry—centered in the Colorado Plateau country—will turn out an estimated 10,000 tons of concentrates this year, and production by 1959 is expected to be 15,000 tons.

The December meeting, sponsored by the Uranium Institute of America and the National Chamber, will explore how the eventual decrease in military requirements for uranium can be replaced by requirements for peaceful uses.

TAXATION

Light from the Russian artificial moons aids us not at all in the effort to foresee prospects for tax changes in the coming year.

Most members of Congress, of both parties, are withholding comment in either direction. For the most part, it represents a "Let's wait and see" attitude.



AUTHENTICATED NEWS

While the hearings of the Ways and Means Committee are still scheduled, much of their glitter and appeal has disappeared. Full recognition of the need for change in tax rates and our tax system remains but the fiscal uncertainties of our arms race have dampened previous enthusiasms. Quietly, also, are recent rumors that the Mills technical changes bill was to be junked in favor of a clean bill to come from the January hearings.

Taxpayers and politicians alike continue interested in tax reduction but both look to the Budget to be presented in January for the key to the next move.

TRANSPORTATION

Congressmen are due for quite a surprise in January when they receive the revised estimates of cost to complete the National System of Interstate Highways.

The new estimates are being developed by the states, and the Secretary of Commerce will transmit them to the House and Senate within 10 days subsequent to January 2, 1958.

These higher costs will undoubtedly be disappointing to many Congressmen who believed they had provided all of the financing necessary to build the system.

Rising costs of road construction and right-of-way acquisition are two reasons why revised estimates are sure to be higher. Furthermore, the careful reappraisal given the needs for Interstate Highways in each state will mean higher estimates in some states than were originally anticipated. In the years ahead, even higher costs are not unlikely.

The effects of the increased cost of the federal share of building the Interstate System may mean: higher taxes; extending the program time; lowering construction standards, or reducing mileage.

MARKETING

continued from page 31

requirements. The manufacturer presented the facts, with suggestions. They cooperated in working out stock controls, estimates of immediate future requirements and regular stock orders. The number of special shipments was reduced by two thirds. The customer's own office and warehouse costs went down and he became a profitable customer to his suppliers.

In another case, a building contractor was buying to meet requirements for individual jobs and asking for truck delivery to the sites. His total purchases justified carload orders for many items at reduced prices. Since he had plenty of warehouse space and his own trucks were making frequent trips to the jobs, it was more profitable to both for the manufacturer to make carload deliveries to his warehouse for job delivery with other materials.

Another company had long sold to everyone who would buy. Salesmen were impressed with the necessity of getting every possible bit of business from every possible customer. They were instructed to concentrate upon the larger cities where the most customers could be reached at the least cost.

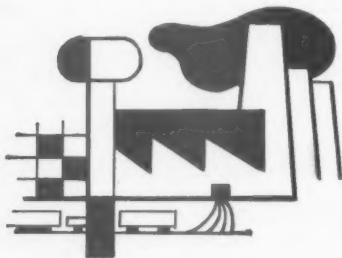
The facts showed their minimum sales and handling cost was just about \$5 for an order. While all customers gave some unprofitable orders, most of them came from definite types of customers. The better customers outside of the metropolitan cities offered more volume and profit than most of the big city outlets. The salesmen were given new specifications for the types of outlet to be solicited. About three quarters of the dealer and contractor agreements were allowed to terminate. A new franchise provided for dealers carrying stocks of frequently ordered items and repair parts. Orders upon the manufacturer for small items and parts were delivered through the dealer. They were happy because it provided a desirable contact for them. Sales calls previously made on the large number of unprofitable big city accounts were directed to the better accounts and prospects in the outside territory. Both profit rate and volume went up.

Another company made every effort to get all possible business direct. All jobbers were sold but the jobbers had no interest and handled orders merely as a service to their customers. As a result of a drive for more and more direct accounts, the manufacturer's rate of profit declined until they were actually tak-

ing fewer dollars to the bank. In a new plan, the manufacturer continued to sell direct to specified accounts but greatly reduced the total number. Selected jobbers were given a substantial number of accounts which would be profitable. A promotion campaign was designed for these types of customers. Jobber and manufacturer avoided solicitation of unprofitable accounts. Customer ordering habits were studied and new sizes of packages and shipping cartons were designed to reduce handling costs. New prices were established for different unit packages.

The sales organization was re-grouped to provide adequate frequency of call on the better accounts in all communities. Advertising media were selected best to cover their customers. Profit went up.

A manufacturer of heavy merchandise with high transportation costs had laid out profit areas based upon freight rates in relation to his plants. The salesmen's bonus was



based upon the profit rate upon different items. On the surface, this appeared to be sound profit pattern marketing. Coordinating all of the profit factors showed that, first, a high proportion of the customers in the lower cost freight areas were unprofitable; second, the bonus system resulted in salesmen spending much time trying to sell high profit items to unprofitable customers. This was corrected by setting up new specifications for profitable customers; coordinating sales records to show accurately expenditure of selling effort against the profitable opportunity; revising the bonus system to stimulate concentration upon profitable customers, as well as items.

In another case, the salesmen received a drawing account and a bonus based upon volume, and paid their own expenses. Analysis showed a high proportion of inherently unprofitable accounts, particularly in the large cities. Having the salesmen pay their own expenses reduced office accounting and the headache of approving expense accounts, but caused salesmen to spend too much time in the larger cities where 60 per cent of their customers were un-

profitable rather than incur the expense of covering a larger number of smaller communities.

Again, when analysis showed a large number of a jobber's customers to be unprofitable, the company explained to each customer just why he was unprofitable. It suggested that the customer select other suppliers. The jolt caused many of these unprofitable customers to review their own practices. Many consolidated their purchases, adjusted their ordering habits and came back as profitable customers.

Where are desirable customers?

The key for any company is:

- ▶ Cost accounting to establish specifications for a profitable customer.
- ▶ Sales and market analysis to determine location.

Once this is done, sales and advertising research can determine the best appeals for the people buying from the profitable outlets and the advertising media to cover them best. Point of sale material and methods can be developed for these particular outlets. Sales compensation plans can stimulate salesmen to concentrate upon them.

Size of place can be a big factor in marketing policy and extra profits. There is little market data upon this point but any company can develop its own pattern. The fog is thickened by several factors—few companies keep records to show volume by size of place, much less profits; census data show retail sales in several forms but they do not show the location of large and small stores or manufacturers by size of place; shipments to jobbers and chains go to the larger cities; sales maps and records are built around big cities; census data show heavy concentration of sales in metropolitan areas but not the location of the customers consuming them; the big city media aggressively promote their markets.

Markets should be evaluated vertically as well as horizontally. Sales records usually show volume and profit by territories. But, for example, where does the profit come from in the territory? How do the better outlets in the smaller communities compare in profit and volume with those in large cities?

There are more people in smaller places than in metropolitan areas. Of the better retail outlets which do three quarters of all retail sales, there are twice as many in places under 100,000 as in places of more than 100,000.

Analysis showed one jobber that 60 per cent of his total profit came
(continued on page 53)

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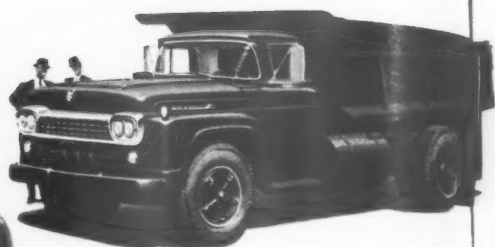


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*Based on a comparison of factory-suggested list prices.

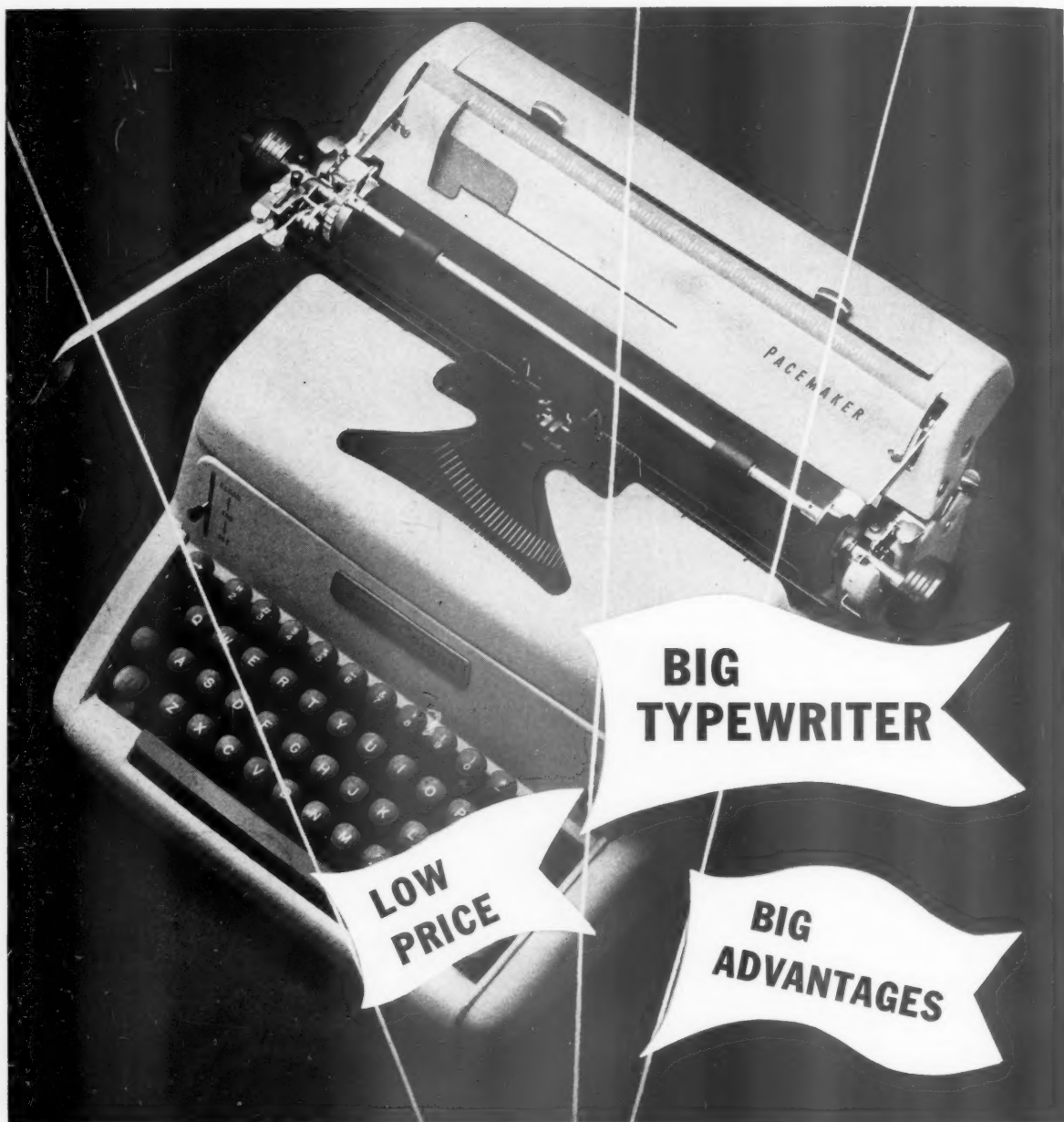
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MARKETING

continued

from customers well outside the city and suburban areas.

A manufacturer in the same area found 62 per cent of sales and 63 per cent of profit came from outside customers.

Many sales and policy executives believe that profitable customers are more highly concentrated in the larger places. The facts can be a decisive factor in profits.

A check for any type of business can be simply done—select a representative area of a central city and surrounding communities; rank the large city accounts in order of volume; rank the outside accounts in order of volume. Then evaluate each group by the profit yardsticks.

Studies of representative businesses have shown:

- ▶ When all costs are considered, the upper quarter of outlets in the progressively smaller communities afford more volume and profit than three quarters of the big city outlets.
- ▶ This profitable volume segment runs from the cities down through quite small towns. Many better outlets were being undervalued by jobbers and manufacturing.
- ▶ The fact-finding job is small—the opportunity is large.
- ▶ The sales cost accounting is largely processing of available data.

Any missing market data can be obtained by existing research facilities. The study can be done in representative sample areas. Once defined for a particular business, the profit volume patterns of customers and markets change slowly and provide accurate measures for the direction of selling and advertising.

Comparison with the patterns established by previous studies shows where and when a company is out of line and also suggests lines of investigation.

A comparatively small improvement in each profit factor can add up to substantial savings; it can help offset the profit squeeze.

It can be accomplished by coordinating all activities in an overall marketing program to profit specifications—without major changes in facilities or increased investment.

—A. J. GALLAGER

REPRINTS of "This Marketing Plan Builds Profits" may be obtained for 15 cents a copy or \$10.15 per 100 postpaid from *Nation's Business*, 1615 H St. N.W., Washington 6, D.C. Please enclose remittance.



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FORECASTS

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situation will be quite different than if growth is maintained.

The reports of the Bureau of Census as to the number of families are based on interviews with a relatively small sample of the total population. Nevertheless the total figures are very accurate. The Census Bureau uses sampling techniques which yield results whose errors for most household figures may be a small fraction of one per cent. However, that does not mean that the figures are highly reliable for indicating year-to-year changes. A slight error in the totals in opposite directions could exaggerate the difference between the totals. So the Census Bureau urges users not to take year-to-year differences seriously, but encourages them to take the totals and trends seriously.

In its reports on family income, the Census includes sentences to the effect that "The figures are subject to errors of response and nonreporting, but the possible effect of such errors is not included in the . . . measures of reliability. . . . The memory factor . . . probably produces underestimates."

These underestimates may be particularly significant in the lower income group, or in families with several workers, and with workers with irregular employment. The reports also do not indicate how many of the low income families have low incomes because the wage-earner was sick, was retired, did not want a job, started work late in the year, or worked only part of the year for reasons satisfactory to himself. In other words, the Census reports how many families reported low income, but gives relatively few clues as to whether these incomes indicate economic difficulties flowing from general business conditions. Just as the consumer price index is more reliable in indicating what will happen to wages than what has happened to actual family outlays, this Census series is more useful in indicating trends in income rather than actual levels of income.

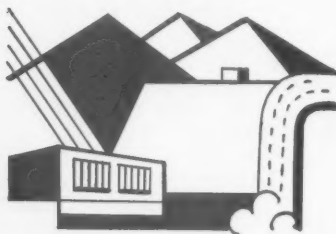
This brings out a basic point:

► Many data are excellent for indicating a specific fact, but cannot be used freely for indicating relationship between facts, or trends in the economy as a whole.

Weekly figures on freight car loadings, coal shipments, or generation of electricity, represent hard-boiled concrete facts. But we need to be careful about the conclusions we draw from these facts. Carloadings

were once a measure of the total value of goods and services produced or consumed. The proportion of the total which can be measured by the number of freight cars loaded each week is dropping. The increased numbers of kilowatt-hours that can be provided per pound of coal illustrates why. It is not long since one pound of coal meant one kilowatt-hour of electricity. New power plants are being designed now to get one kilowatt from .6 of a pound of coal. The increased efficiency of coal use, and the increased competition of other fuel sources, such as hydrocarbons, mean the economy as a whole can grow though coal consumption is relatively stable. In addition, over the short run, coal can be stockpiled so that production and shipment can fluctuate without corresponding fluctuations in the economy.

Other factors enter into the freight car picture: A higher percentage of fuel is being handled by pipelines; trucks are accounting for a larger



percentage of transportation, certain commodities move by water, so carloadings are no longer the index they used to be. Furthermore, cars are getting bigger and carry heavier loads. Measurements which rely heavily on carloadings can, therefore, be misleading.

Lumber data sometimes are used for prediction or weighing purposes, too. The amount of lumber used per house is dropping, even though the average house size is growing. The drop is due in part to more efficient use of lumber. Because houses are better designed, and the lumber is better prepared, 1,000 board feet of lumber will go much further today than it would even 10 years ago. The shipment of lumber might decline two per cent a year while the volume of houses being provided increased. Today's carload of lumber may be 20 per cent greater than a carload of 10 years ago. We may get 20 per cent more from each unit going into the car than we got 10 years ago. Each car might, therefore, support a 40 per cent bigger GNP than it supported a decade ago.

When generation of electricity is used as a clue to current business activity we face a different danger.

Consumption of electricity per unit of business done has tended to rise over the years; that is, consumption of electricity tends to increase faster than the volume of business. A comparison of sales of electricity this week and last week, or for this week and the corresponding week last year, might suggest that business is rising more than is the case. An adjustment must be made first for a growth factor.

Other adjustments must be made, too. Electric furnaces may have been put to work suddenly, or a sudden hot spell may have brought air conditioners into use much earlier than usual. The increase in the use of electricity for the steel industry may have been out of proportion to the change in the total volume of business. The use of electricity for air conditioning may mean no increase in business at all. As a matter of fact, the hot spell may have discouraged shopping trips, reducing retail sales and the total volume of business done.

Unemployment figures are now available on a monthly basis. When wages were lower, and when a family of average income tended to have only one gainfully employed worker, a drop in employment tended to mean a rise in the number of households without incomes, or with sharply reduced incomes. Today it may mean a drop in the number of part-time workers in the labor force, therefore unemployment figures are no longer as good a barometer for this purpose as they were a few years ago.

Nearly a third of all married women under 60 work today, and many people have more than one job. Consequently when job opportunities decline, people with two jobs may lose one of them but still be employed, or married women who lose their full, or part-time jobs, may drop out of the labor market and not report themselves as unemployed to the sample enumerators of the Census (even though they may receive unemployment compensation for a time).

So the labor force tends to fluctuate with job opportunities. The civilian labor force is reported to have risen only about 650,000 in 1953-1954, when employment dropped by about one million. But it rose nearly 1.4 million in 1954-1955, when employment rose nearly 2 million. The labor force rose 1.7 million in 1956, and employment rose nearly 1.8 million. When employment dropped from 1956 to 1957, the labor force held nearly constant.

Even these more detailed figures conceal a good deal. Employment dropped in the late summer of 1957



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FORECASTS

continued

basically because agriculture employment was reported to have dropped. It was reported as being more than 800,000 less in September, 1957, than 1956. Obviously, this had to be a temporary situation. If agricultural employment were to drop by 800,000 each year, there would be no agricultural employment by the end of 1965. Weather conditions, or sampling errors, or other causes, may explain a part of the reported 1957 drop.

A modest decline or rise in business cannot be inferred safely from unemployment figures.

Sales and inventory figures may be relied upon as clues, both to the current level of business, and to prospects for future business. But these, too, are highly tricky.

Suppose a steel company is selling unprocessed steel to a fabricator whose inventories are rising. Inventories pile up, but sales at the earlier processing level are high. The ratio of total sales to total inventories may not look bad. But, because inventories are rising, the fabricator may stop ordering. On the other hand, the fabricator could be putting himself in a better position to service the market and not be perturbed at all over his rising inventories.

Another commonly recognized difficulty here is the fact that book values of inventories reflect not only changes in volume, but also changes in prices. Firms using the LIFO method revalue their inventories regularly at current prices. Consequently the book value of inventories changes during a time of changing prices even though the quantities stay constant. While the government tries to eliminate the effect of price variations in its GNP figures, most current inventory data cannot be compared regularly with earlier data if price changes have been appreciable in the interval.

If orders for fabricated goods are dropping, but sales of finished goods are not dropping, the immediate reaction might be that backlogs of orders for fabricated goods are dropping. Obviously, finished goods cannot be sold unless components necessary to the making of these finished goods become available. Therefore it might look as though orders for parts must soon start rising.

Unfortunately, the statistics may not justify such an interpretation. A fabricator producing components reports the orders for his components as orders for finished goods. The company buying these finished goods

considers its purchases as purchases of partially fabricated items. So we can get quite confused.

Orders themselves, even without reference to sales figures, can be highly dangerous, too. Automobile sales are considered as the equivalent of orders because orders and sales are practically identical. The order index, therefore, is fairly heavily weighted with auto sales figures. These sales can fluctuate with weather, with model dates, and with many other phenomena which are not, and probably cannot, be adequately adjusted in the weighing and seasonal adjustment process. Orders for certain finished goods, say auto sales, can drop appreciably before a new model period. If the new models are introduced at an unusual time, there may be no seasonal adjustment adequate for reflecting this. Consequently the new orders series may appear to drop when actually such a conclusion is not justified.

There has been considerable dis-



cussion of changes in productivity as indicated by relationships between changes in the Federal Reserve Board indices of output, and volume of employment as reported by the BLS. At first glance it would appear that, if the output index for a specific commodity went up one per cent and employment went up one per cent, productivity did not change. This may be an inaccurate conclusion because about half of the Federal Reserve Board production indices are based on employment.

It is extremely difficult to calculate the physical volume of output of a company turning out a large number of different items. It is particularly difficult to calculate how its physical volume changes when the mix changes. What is the physical volume of 100 miles of nylon thread and a ton of sulphuric acid? If a company turns out more sulphuric acid and less nylon one month, and more nylon and less sulphuric acid another, how did its physical volume vary—or, did it?

The Federal Reserve Board often

has to use indices of employment to resolve such problems. This means a good deal of discussion based on conclusions drawn from productivity figures which may have a somewhat questionable ancestry.

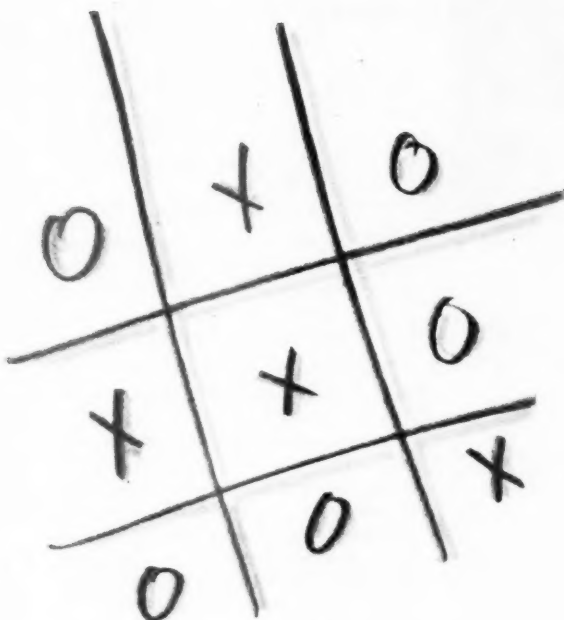
One of the most commonly misunderstood indexes is the Federal Reserve Board weekly index of department store sales. Particularly in the period following '50, department store sales were a declining percentage of the total sales through retail outlets. But after '55, department stores began to do better relative to total sales through retail outlets. Before '55 it was necessary to adjust weekly department store figures upward for clues as to consumer purchases. After '55, such an adjustment was less necessary.

However, department store sales are affected sharply by weather, by rain, by temperature, by the days of the week on which holidays fall, and other factors. A rainy day may increase sales of rubbers and umbrellas, and decrease sales of clothing. It may reduce total sales in the days affected, even though consumer plans to purchase remain high. Cool weather in the summer may reduce sales of summer clothing. Cool weather in the fall may increase sales of winter clothing.

Columbus' birthday fell on a delightful Friday in '56, and New York City department store sales zoomed. Columbus Day fell on an unpleasant Saturday in '57, and sales collapsed. A comparison of the raw department store sales figures for the second week in October '56 and '57 would suggest a sharp reduction in consumer plans to purchase. But after making the adjustments for the weather and holiday, the data indicated consumers were willing to spend as much in October, 1957, as in October, 1956. The Federal Reserve Board index after adjustments for such factors is very different from the index as published.

Improvements in data can make trouble, too.

The Census Bureau enlarged its sample and changed its reporting of retail sales somewhat this year. The reported retail food sales in August '57 were nine per cent higher than a year ago. It doesn't seem certain that people spent nine per cent more for food this August than last, especially when even the BLS food price index was up only four per cent. Experts in the field suggest that a good deal of the change in retail sales as reported by the Census in the late summer was due to the new systems of reporting. It was a statistical, rather than a real spending spree, whose effects would soon weaken. Before assuming that a sudden ap-



Nobody lost . . . Nobody won, either . . .

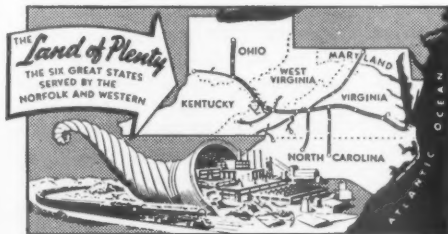
In business, there's no profit in breaking even. That's like a tie game of tic-tac-toe.

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FORECASTS

continued

preciable change in any figure is real, it may be necessary to go behind that figure and see whether it is being prepared in the same fashion it used to be, and if its definition is unchanged.

This reflects an important point:

► Know your data, or be sure that your adviser knows his data in detail before accepting the conclusion that a significant change has occurred because the data say so.

This is true of almost any area. A half century ago, for instance, agriculture represented up to one third of the economy. When exports were good, farmers not only had large crops, but got good prices for them. These prices might cause nonfarm consumers to reduce other purchases, but increased purchases by the farmers and by those receiving income from the farmers would offset this.

Today, farm purchases represent considerably less than 10 per cent of total purchases, and more than 33 per cent of the farmers' income comes from nonfarm sources. An increase of farmers' income from nonfarm sources could offset an appreciable portion lost from farm sources in any given income period. The net, at most, might represent a drop of not more than one per cent in total purchases in any year. Net changes in the gross farm income since 1951 have represented only a fraction of one per cent of the total national income. Data on changes in farm incomes, therefore, which once were highly important to the entire economy may today be important primarily to only a few important industries and might become particularly significant for the economy as a whole only if changes in this segment coincide in direction and time with significant changes in other important segments.

Similar situations exist in the housing field. The number of marriages dropped from almost 1.6 million in 1949 to less than 1.5 million by 1954. The census figures showed doubling up at a relatively low level. So the predictable decline in marriages might have been interpreted as meaning a decline in the market for houses. But the volume of dwelling units started averaged more from 1950 to 1956 than in 1949. Marriages represent only a part of the demand for houses. Other types of housing demand can rise, while marriages fall, or vice versa. So forecasting housing markets requires a knowledge of attitudes toward housing, the willingness to spend for

housing in preference to other items, a knowledge of trends in income and income distribution, and a knowledge of the possibilities for expenditures to improve existing houses versus buying new ones.

Knowledge of the availability and cost of money, not only in general, but with special reference to mortgage financing is also needed. The technician in each of these fields can develop data and indicate its reliability, but it takes someone who can look at the picture as a whole to bring order and conclusions out of the highly dangerous data in this, as in other, fields.

At the moment, a great deal of attention is being paid to federal budgets. Anyone who will examine official statements will discover that estimates of expenditures for a given period vary by \$2 billion, or more, within a year.

The federal government is so complex that a final accounting of its expenditures is not possible within even 12 months after the end of the fiscal period. Operations are so far-flung that it is impossible to translate decisions involving major policy changes in a short period. The government published a bulletin in 1953 stating that defense expenditures that year would hit \$60 billion. As finally reported, they did not reach \$53 billion. The government was off by \$7 billion, or 12 per cent within that 12 month period.

The government has been off lately in the opposite direction. With the best of intentions, and with the best wishes of taxpayers, it has been proclaiming that outlays of the defense establishment would drop to a total of \$38 billion from the \$42 billion at the beginning of the year. They may reach a \$40 billion rate, with the total for the year averaging about \$41 billion. The difference between the drop to \$38 and a drop to \$41 billion is only \$3 billion, but a very significant \$3 billion. It may mean a difference between having to and not having to live off inventory, cut down on plant investment, reduce expenditures in many sensitive areas, and to maintain or not maintain the current rate of operation.

This emphasizes that even data on government expenditures coming from the best possible official sources, must be viewed with considerable skepticism because of the difficulty of translating wishes into action. The forecaster must weigh the probability that wishes can be fulfilled before judging the impact of public programs—announced or unannounced.

The fact that much of the published economic data comes in two

forms—adjusted and unadjusted—offers another pitfall. Automobile production figures, for instance, are released regularly. If models are changed in October of one year and in November of another, it is difficult to compare production figures in the falls of the two years. Any observer realizes this in dealing with seasonally adjusted indices, or figures. The Federal Reserve Board tries to make adjustments in this particular area but with imperfect success. In other areas it can make no adjustment at all. Seasonal adjustments made by one branch of the government, such as in automobile production, for instance, may differ from the adjustments made by another branch of the government for the same data. Should the seasonal adjustment call for a changeover in October, and should the changeover actually come in November, the adjusted production figures for September may be high and the figures for October may be too low.

Many seasonally adjusted production figures may be in error, too. If vacations were uncommon, or historically were spread throughout the year in an industry but now are concentrated in one month, the production index would drop sharply in that month. The unwary analyst, looking at the figures, may sense a drop in business which might not exist. Later, when vacation periods end, production may be speeded up to rebuild inventories. This might suggest a nonexistent business boom.

Raw data, in general, are safer to use because the analyst knows more about the sources. Seasonally adjusted figures, when they are properly adjusted, tend to indicate whether changes are normal or abnormal. Difficulties arise from the inability to develop real seasonals, and from trouble in understanding what an adjusted figure means. For instance, freight carloadings of agricultural products tend to rise sharply in the fall. In a normal year, therefore, a properly adjusted index of loadings of agricultural products would hold steady, while the shipments rose sharply. The analyst would read a steady figure as indicating, 1, business was normal here, 2, the use of cars for this purpose was rising sharply. He would need other data to tell him that the available supply of cars was, or was not, adequate to support the sharp rise which the unchanged figures indicated.

Another danger lies in the unsophisticated use of lag-lead or of diffusion-type indices. A lag-lead index—based on the theory that certain industries reflect economic change before or after others—can be useful

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FORECASTS

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in the hands of a highly trained technician, but it can be dangerous in other hands. Some technicians have decided that a few indices are likely to lead the economy up or down. Residential construction is sometimes used in this way. The view is that residential contracts have risen and fallen within the past 30 odd years in advance of changes in the economy as a whole.

The monthly reporting system for residential construction was different in the '20's from the reporting system in the '30's. The reporting system in the '30's was different from that in the early '40's, and the reporting system used in the early '40's differs from that currently used. Changed reporting methods and resources, therefore, mean that there is no assurance that a series which led other data in the past has significant value as an indication of what the economy as a whole will do tomorrow.

As a matter of fact, the residential contract series of the '20's was not representative of the demand for residential construction in that era. Aside from the fact that it was an incomplete series, (contracts below \$12,500 at today's prices, and rural contracts were generally excluded) the residential market then was quite different from now.

Single family home building began to drop in 1925. But speculative apartment house building began to rise. The apartment house building was sparked by the ability of the bond and mortgage market to sell paper at profitable rates, not by a demand for houses. Demand for mortgages and bonds began to fade and the volume of speculative residential construction dropped before the depression of '29. That does not mean that today's family demand for housing will give a similar clue to speculative or other changes in the economy as a whole.

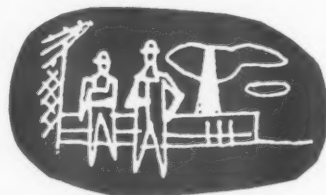
Actually, housing starts began to turn down in the winter of '54, but the economy rose in '55. It rose again in '56, while housing continued to drop in '57. On a constant dollar basis, the 1957 economy will be slightly above '56 but the volume of housing will be lower than in '56, or in '55.

The real market, as distinguished from the speculative housing market of the '20's, was based almost entirely on the growth in the number of married couples. Only about half of the market from '50 to '55 was supported by married couples. The rest was supported by an increase in the

number of old families and by large increases in the number of young unmarried men and women who had jobs and were able to afford quarters of their own. Because of such changes a housing lag could precede a depression in the '20's and precede an upsurge in the '50's.

Similar conclusions may follow detailed analyses of other indices which have tended to lead the economy in the past. The make-up of today's economy and the relative importance of various items in it are so different from the make-up and relative importance of 10 years ago, to say nothing of 30 years ago, that it may well be pure chance if declines in the same industries that preceded downturns 30, 20, or even 10 years ago should precede a downturn today.

Diffusion indices are used to indicate shifts in the rates of change in economic growth. Such an index may be defined for our purpose as an index of the rate of change in the economy. For instance, if 14 of the



21 employment series are rising, that index would be 66.7. If only seven are rising, that index would be 33.3. Such an index is dangerous to use, not only because it does not reveal whether the changes are or are not significant ones, but also because the nature of cycles may be changed.

In the past, cycles might pass through periods in which the economy as a whole rose sharply. A flattening of the rise followed. Finally came a drop at an accelerating rate. A diffusion index which is essentially a first differences index would show when the rate of rise began to decline. This could be a clue that decline was coming.

But this has not been so true in the past decade. The economy tends to be more stable. No one industry is as important as the major industries used to be. We had a decline in housing, agriculture, and in federal expenditures in 1956. The diffusion index flashed dangerously. Yet the economy hit boom levels. This probably could not have happened in the '20's. We now are better able to absorb modest declines in the rate of growth. Therefore warnings from a diffusion-type index may mean that we might have had a depression in the '20's—not that we are in for one today.

A red light thrown out by diffusion indices may, of course, precede a depression. But that, too, may be chance. If the indices which are declining are in themselves highly significant, and if the impacts of these declines will trigger other declines which cannot be offset—or are not offset—by either industrial or governmental action, or by increases in consumer expenditures, the economy may run into difficulties. The problem is not: Is the index throwing out warning signals? It is: Are the industries pinpointed by the diffusion index acting in such fashion as to create serious repercussions? The index does not tell us trouble is coming. It may suggest that a probe into this or that area is advisable. The probe may indicate serious trouble or it may not.

One of the trickiest of all types of indices is the gross national product index itself. Certain components are purely fictitious from the standpoint of business operations. They are important in indicating the volume of services and satisfactions provided, but not in indicating employment or income. The rental value of owner-occupied dwellings, food and fuel produced and consumed directly as by farmers, services provided without payment, etc., are included in the service component of the GNP. Actually, the so-called service components of the GNP have risen from less than 19 per cent in '48 to more than 24 per cent currently.

The total GNP rose about \$23 billion in current dollars in 1955-56, while the service component rose more than \$7 billion. In other words, more than a third of the rise in the GNP was in the personal service component. From 1953-54 the GNP dropped slightly in current prices and about two per cent in constant prices, but the service component went up more than six per cent in current prices and three per cent in constant prices. The GNP less the personal service component dropped appreciably more from 1953-54, and rose appreciably less from 1955-56 than the total GNP as reported.

The volume of business transacted can drop, while the GNP rises, or the actual rise in the GNP may be heavily influenced by an unhealthy rise in inventories. Money, labor, equipment, are all being spent in building up inventories.

—ROBINSON NEWCOMB

REPRINTS of "How to Interpret Forecasts" may be obtained for 15 cents a copy or \$10.15 per 100 post-paid, from *Nation's Business*, 1615 H St. N.W., Washington 6, D.C.



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You can get your ideas across

Everyday communication is important to your business. Here are 10 points to watch

SKILL AT PRIVATE SPEAKING is an essential tool of modern management. It can be developed by any executive who will take the trouble to learn and practice its special techniques.

This conclusion was reached by two experts who conducted a study of effective verbal communication in business. They are Jack Byrum, an account group head of the advertising firm of Batten, Barton, Durstine and Osborn; and Bert Knapp, veteran New York speech coach. Here are some of their findings, which they plan to publish in a book next year:

Eloquence in public speaking, while a helpful adjunct to a managerial career, is of secondary importance to the ability to get your ideas across in situations that are essentially private. These include your conversations with superiors, subordinates, associates, customers and suppliers, as well as the more formal presentations you are called upon to make at staff, committee and board meetings.

Private speaking is a distinctive art. It has its own ground rules, which resemble those of public speaking in some respects and differ in others. If you develop



skill at private speaking, you will probably find it increasingly easy to prepare and deliver a speech before a large public audience.

Mr. Byrum and Mr. Knapp have worked out a list of specific suggestions for managers who want to improve their private speaking ability:

Basic Principles: Seek to communicate rather than to impress. Whether your audience consists of one person or 100, you will get better results if you keep your mind on your message—the facts, ideas, proposals you are trying to get across—instead of on yourself, and the impression you are making.

Be yourself. That's the only role you can play naturally. If you try to put on an act by using big words or studied mannerisms, you will be tabbed as a phony. Sincerity has a tremendous impact on a listener. You sound sincere when you say things that you really believe, and say them in your own way.

Be prepared: Never speak on a truly impromptu basis if you can possibly avoid it. There may be some rare occasions when you are compelled to talk off the top of your head, without taking time to edit your thoughts. But you usually will have at least a few minutes to think over what you are going to say. Use them to prepare a mental or written outline of the points you want to make. This will keep you from wasting the time of other executives with the rambling discourse which results from trying to think and talk at the same time.

Don't be ashamed to use a written outline or notes





Mumbling hides ideas

for an informal presentation to a small meeting. It shows that you thought enough of your audience and the occasion to prepare for it. Your notes also may serve as a memorandum to be left with your superior—a courtesy many senior executives appreciate.

Keep it brief: Brevity is important in any speech, imperative in business communication. If you are making a formal report, hold it to 15 minutes if possible, 20 minutes at the outside. Nobody listens or cares after that. In informal sessions, let the senior executive decide how much preliminary social chit-chat he can afford to indulge. When you get down to business, go directly to the point. Don't try to prepare your listeners with a long-winded build-up. It merely irritates busy men who are sitting there wondering what you are getting at. Make your best arguments first, and don't drown them in a sea of details. Let them ask you questions if they want more facts.

Diction: The most profound remarks are lost if they are spoken in a mumble. In private conversation, in small meetings and in talking over the telephone, clear enunciation is a requisite for being understood.

If people don't have to concentrate on your voice, they will be able to pay more attention to your ideas.

Speaking clearly is primarily a matter of opening your mouth so that your lips and tongue have enough freedom to form distinct sounds.

If you tend to swallow, slur, or mutter your words—and virtually all of us do—practice talking with a pipe bit or some similar object held in the side of your mouth. If you will spend 15 minutes a night reading aloud in this fashion, trying to pronounce each word as distinctly as the artificial impediment permits, you can develop extremely clear diction within a month.

Informal situations: Strategic silence is often more effective than anything you can say in conversations conducted over the telephone or in person.

Develop poise by pause. Don't feel that it's up to you to fill the awkward silences. Let somebody else do the nervous gabbling, if there is any. If someone

throws a question at you, discipline yourself to wait a moment before answering—even if you already know what your answer will be. Taking your time is a sign of self-control; it is what professional speakers and actors call presence.

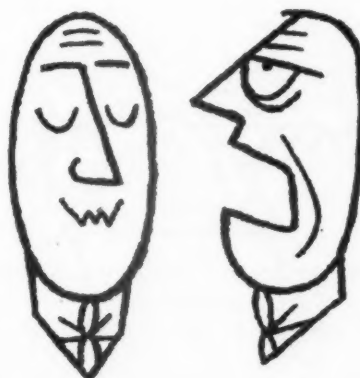
It is desirable to appear relaxed and in command of the situation; but don't overdo the nonchalance. In a conference of any size, your words will carry more weight if your demeanor is alert, attentive, business-like. Taking notes is a sign of attention; doodling betrays boredom with the proceedings. Office chairs are meant to be sat in, not lounged in. Flippant remarks may earn you a reputation as a wit—or as a smart aleck. Carrying on whispered side conversations in a meeting is grossly discourteous.

Keep your receiver on while you're transmitting. The cardinal sin of business communication is to be so absorbed in what you're going to say when your turn comes that you never listen to what the other fellow is saying. Even in a situation where you are supposed to do most or all of the talking, keep your eyes and ears open for audience reaction, if there is any. (But don't be thrown for a loss if there isn't. Many executives are poker-faced listeners by strongly ingrained habit.)

If several people are present, talk to all of them. If you direct your attention exclusively to one or two you are eager to impress, the others will sense they are being ignored. Experiments in group dynamics show that hostility toward a speaker develops rapidly in this situation.

Never raise your voice to shout someone who's trying to interrupt you. Keep talking till you've made your point—but lower your voice. People will automatically strain to hear you and will tune out the loudmouth.

If you encounter a heckler—a fellow participant in a meeting who is obviously trying to show you up or make you look foolish—don't display any irritation or hostility toward him. Instead of answering his questions in a defensive tone, pretend that you believe he is really trying to be helpful. You are glad he asked that question because it helps you to clarify the



Use strategy of silence

Get ideas across *continued*

following important point, etc. The contrast between your courtesy and self-confidence, and his needling attempts to attract attention to himself, will not be lost on other members of the group.

Conversely, never try to cover up your own confusion or insecurity by directing disparaging remarks at some other member of a group. The ability to hurt and insult other people is quite commonplace; it is not an executive trait that commands admiration.

Overcoming stage fright: Some apprehension about an important presentation—whether it be asking for a raise or reporting to the board of directors—is natural and even helpful. It keeps you up for the performance. Excessive stage fright paralyzes your mind and voice. The best way to avoid it is to concentrate on what you are going to say rather than how you are going to say it. Knowing your subject thoroughly gives you a feeling of confidence. But if you try to memorize a set speech, you will be haunted by the fear of forgetting your lines, and this will make you more nervous than ever.

Shortness of breath, tell-tale symptom of the agitated speaker, can be minimized by the simple expedient of sitting—or standing—with your body erect. A slouch pushes your stomach into your diaphragm and cuts your wind.

If you are frankly terrified of some person or group of persons who will be in your audience, try a little brainwashing operation on yourself just before you begin to speak. Look right at the man who awes you most and remember that he is a human being who got up this morning and brushed his teeth and shaved and put on his trousers one leg at a time, just as you did. This advice is not given facetiously. The mental image of your boss standing at the washbasin in his pajamas may be precisely what you need to address him as a person—which is the secret of all effective communication.

Preparing for presentations: There are many business situations—for example, delivering a report be-

fore a board of directors, or presenting a major plan to an executive conference—which require fairly extensive preparation. The word presentation has come into business parlance to describe these talks, which should be neither as informal as conversation, nor as formal as a public address.

The best way to organize your thoughts for a good presentation is to write them down. Whether you write the complete talk or merely an outline depends on your experience and ability as a speaker. It is far better to write a good report and read it from the manuscript than to put on a bumbling extemporaneous performance.

Here are pointers on preparing a semiformal talk: Forego fancy introductions and get right into your



subject matter. The best opening gambit is to tell them what you plan to cover in your talk.

Don't try to be witty if you aren't. Nothing distracts attention more than an illustration that doesn't really illustrate, or a tired off-color joke that has been dragged in by the heels to enliven a serious report.

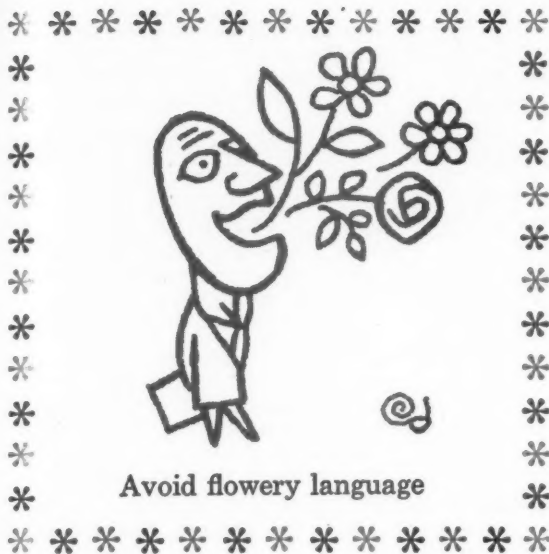
Be clear in your own mind what you are trying to accomplish—to put across an idea, to convey information, to inspire, or to stimulate thinking. You should organize your whole discourse around this single objective, avoiding all digressions and excursions into other subjects.

Never underestimate your listeners' intelligence by laboring obvious points. But don't overestimate their information, by leaving out background facts which are essential to understanding of your presentation.

Use language that is naturally part of your working vocabulary. Avoid any word whose meaning or pronunciation is doubtful in your mind. Eschew trade jargon, slang, profanity, and the latest word fads.

Keep your sentences short so you won't be gasping for breath before you reach the end. Use as many nouns and verbs as you need, but go easy on adjectives and adverbs.

Have your text or outline typed in jumbo letters. Underscore the verb in each sentence. No sentence



Avoid flowery language

should break over from one page to another. Put the pages of your text in a loose-leaf notebook so they will turn easily, and won't get out of order or fall on the floor.

Rehearsing: There is a world of difference between memorizing a set speech and rehearsing a presentation. The former is a serious mistake; the latter is absolutely essential. Even if you plan to read from a prepared text, you should go over it several times in advance so that you are thoroughly familiar with its contents and can look up from the paper occasionally without losing your place.

Always rehearse out loud. Don't ask your wife to listen to you; just lock yourself in a room and have at it. Pick out various objects in the room—a book, a table, a window—and pretend they are members of the board or committee. Address each of them in turn, just as if it were a particular individual. This will prepare you to speak to your listeners instead of merely reading a paper.

Delivering a semiformal talk: Check your appearance before you go on. A speaker should always be well groomed, conservatively dressed, with no clothing affectation that will attract attention to itself. A dark suit is best.

Don't start talking until you have the attention of the entire group. Just stand up and wait for the chatter to subside. Don't rap for attention. Someone will see you standing there, ready to begin, and will do the shushing for you. It's better psychologically to let the will of the group bring it to attention.

Frenchmen use their hands naturally when they talk; most Americans don't. It's better to use no gestures than a forced or studied one. If your hands bother you, fold your arms, clasp your hands behind you; or even put them in your pockets. Just don't let them flutter around in such gestures of insecurity as straightening your tie or patting your hair in place.

If you are reading from a text, watch for the verb underlined in each sentence. You don't necessarily accent the verb—you simply treat it as the point

which you must reach before you slow down in your reading pace. If you head for the verb each time, momentum will carry you easily through the rest of the sentence.

If something goes wrong, plow on. Don't try to go back to pick up a dropped word or phrase. The best way to avoid panic is to keep talking.

Pause occasionally, always at the end of a sentence, to let a major point sink in, and to look around at your listeners. But don't use this interval to suck in a huge deep breath. Such periodic panting is a dead giveaway of nervousness, and does not really contribute to your breath control.

Visual aids: Visual aids can be valuable in a presentation if they are used properly—and sparingly. But they are becoming a fetish in business communication, and many so-called presentations are really nothing more than rambling commentaries on a series of charts or slides.

Here are some basic rules about visual aids:

Stick to one type—charts or slides. Don't try to mix both into the same presentation.

If you use slides, group them so that you show and explain several of them in a row while the lights are down. It irritates people to have the lights going off and on several times.

A dress rehearsal with the operator of the slide machine is imperative. Both of you should have identical scripts with the visual aid cues clearly marked.

Prepare your listeners for a slide or chart before it is shown. Tell them what it will illustrate, or how it fits in. Don't wait till everyone is staring at it to begin your explanation.

The test to apply to any visual aid is this: Does it actually illustrate a point more effectively than you could do with words? If it doesn't, leave it out.

—LOUIS CASSELS



Rehearse—but don't memorize

REPRINTS of "You Can Get Your Ideas Across," may be obtained for 15 cents a copy or \$10.15 per 100 post-paid from Nation's Business, 1615 H St., N.W., Washington 6, D. C. Please enclose remittance.

How executives' pay will change

Latest studies on compensation find new clues for motivating managers

INTENSE COMPETITION for top-flight executives is forcing business to study what kinds of compensation will best attract, hold and motivate managers.

The executive task is different today from what it was a generation or two ago. The rare talents needed in today's executives for company success are in short supply.

Compensation has had to take new shapes also because politicians and regulatory agencies have criticized high salaries and taxed them.

In addition, different compensations have different effects. While one man may be stimulated by the promise of a share in his company's profits, another may be spurred to greater effort by the fear of failure.

The compensation problem is complicated further by the fact that, to a large degree, top executive salary ranges are almost automatically set by certain economic factors. Compensation experts agree that the most important of these are the size of an organization, competition within an industry, business trends, and performance of the company.

For lower-ranking executives, job content is what counts most.

Business leaders are probing a murky area in the search for the best form or forms of compensation and how much should be paid. But already some important discoveries have been made. For instance:

1. There is a limit in the amount of bonus that is an effective incentive. Maximum motivation can be obtained with payments that range from 25 per cent to 50 per cent of base salary in the lower and medium ranges. An open-end bonus brings no increased motivation there. However, in the extreme upper ranges, where results are more in control of the individual manager, a higher proportion of total pay can well be in the bonus field.

2. A profit squeeze or a dip in business conditions might have some but not a proportionate effect on execu-

tive pay, since compensation is an incentive as well as reward.

3. Though the compensation of company presidents has risen at a slightly slower pace than has the pay for lower ranking executives, relationships in the compensation among top managers remains relatively constant. The number two man in an organization averages about 70 per cent of the chief executive's pay. The number three man's compensation averages about 60 per cent of the top man's pay. This salary spread helps encourage subordinates to strive for promotion.

The probability that executives will eventually have quite a bit of choice in how they are paid is voiced in many quarters.

Byron Case, General Electric Company's manager of Employee Compensation Service, says, "The coming trend appears to be away from mass treatment to the voluntary or individual compensation plan where an executive and the company agree to that particular compensation mix that will most motivate him."

Dean H. Rosensteel, director of Executive Compensation Service for the American Management Association, predicts: "There will be more choice in types of compensation to suit an executive's own situation." General Motors, for one, has just allowed executives a choice between a cash bonus and stock option.

In some instances the executive will be able to say when he is paid. This prospect is based on the growing use of deferred compensation and other plans arranging for various types of compensation at times when they are most advantageous for tax and other purposes.

A study completed this year by the University of Virginia Graduate School of Business Administration for General Dynamics Corporation reached these conclusions about the executive compensation:

1. The executive acts in a unique

role in the economy, a role not envisaged in classical economic theory, that of making possible the effective working of organized groups.

2. This special function justifies a special approach to the problem of paying him. His form of compensation is more usefully looked on as inducement to perform than as a reward for services rendered; as such it has little of the residual character of the profits received by the entrepreneur of classical economic theory.

3. Within certain broad limits set by custom and competition, executive compensation is determined by the interaction of the needs of specific business concerns and the needs and desires of particular men.

4. For the individual company, executive compensation is primarily an instrument for getting, holding and appropriately motivating the combination of competent management required for survival in a competitive society.

5. Each individual executive is a special case and must be so considered for compensation allocation if his effective effort is to be maximized.

It is also generally agreed that an orderly progression of salaries is necessary to meet the demands of the market and provide incentive to move ahead in the organization.

For most executives, more than one type of compensation is necessary to reward and motivate because the job may be that of a hired manager, an arbiter, an entrepreneur and a professional, all at the same time.

Further evidence of management interest in questions of executive compensation is the growth in the number of companies with written compensation policies and the cooperation of surveyed companies in the AMA's top management compensation study. This comprehensive survey contributes this current information to the store of data on the subject:

Top executives' salaries, bonuses, plus company contributions to these executives' retirement funds increased by 5.1 per cent in the past year, compared with a 5.9 per cent rise in compensation in the previous year.

The rise in the rate of compensation has been only slightly slowed by the current bind on profits. It slipped only .8 per cent in the past year while the rate of increase in profits of the surveyed companies plunged nearly 20 per cent for the same period.

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EXECUTIVES' PAY

continued

any rapid rise in the compensation for ranking executives in science and engineering as yet. Their compensation has gone up no faster than has that of sales or production executives, for instance.

Generally, bonus payments were lower only where there was a pronounced drop in company earnings. The total paid under bonus or incentive plans increased by 8.8 per cent over the past year. A little more than half the companies in the survey reported having bonus plans now, compared with a little less than half the year before. The bonus represents about 15 per cent of the total compensation to top executives.

Company contributions to retirement plans continued the gradual rise that's been apparent for the past several years. Contributions to these funds increased by 4.1 per cent, reflecting increased salaries as well as liberalization and expansion of these programs. Some 71 per cent of the companies gave pensions or let top executives share in profits last year, compared with 66 per cent the year before.

The average compensation for a chief executive ranges from \$15,000 in an organization with sales volume from \$500,000 to \$1 million, up to an average of \$377,000 in companies with more than \$2 billion in sales.

The findings in the survey are particularly significant because of the number and range of companies and executives represented.

Compensation figures cover 34,670 executives in 3,853 companies, both publicly and privately owned, with sales of more than \$322 billion, net profits after taxes of \$21.4 billion and total year-end employment of 17.5 million workers.

Much of the data in the study is taken from reports of this host of companies. Year to year comparisons are based on a controlled group of about 11,000 top executives in 1,400 companies in a wide range of industries. The latest figures on compensation are in some cases for calendar year 1956 and in some cases for the fiscal year that ended this past July 1.

Mr. Rosensteel has been studying the subject for 18 years. He has been conducting AMA's top managers' compensation survey since its start in 1950.

Since that year there has been a little less than five per cent increase in total executive compensation each year, compared with about a 7.5 per cent increase annually between 1940 and 1950. In coming years, Mr.

Rosensteel expects that the rate will average around five per cent, with only severe economic changes having much effect on this rate.

"There is more emphasis on base salary to provide security," Mr. Rosensteel says, "which adds stability to the compensation."

Pressures from politicians, organized labor and stockholders sometimes tend to hold down top management pay. Executive pay in a government-regulated industry such as public utilities is generally lower than in non-regulated industries. However, in regulated industries the element of risk is often not as great.

The AMA survey, for example, shows that the presidents of durable goods manufacturing companies with \$10 million sales volume averaged compensation of \$50,000. Presidents of utilities with \$10 million in sales got only \$30,000. Presidents of durable goods manufacturing companies with \$100 million in sales averaged \$100,000 last year, while presidents of utilities with the same sales volume averaged only \$75,000 in compensation.

Philosophizing on executive compensation, General Electric President Ralph J. Cordiner told NATION'S BUSINESS:

"The relatively few people who are finally successful in attaining top level positions in competitive industry and are effective in carrying out these responsibilities for the common good, are the highly competent survivors of a competitive struggle that is all the more intense because of the potential rewards.

"The promise of unusual material compensation is not, of course, the whole answer to motivation of our most remarkable men. But it is a very necessary base for the total motivation and satisfaction structure. Where the eventual material reward is not potentially high enough to motivate the most capable people to their best performance, most important positions will be filled by mediocre producers.

"Leaders with outstanding competence and drive will greatly improve the opportunities for millions of others to make their full contributions."

The salary is the most important form of compensation, most executives will agree. The dollar amount of salary is easier to see than the dollar value of some other forms of compensation. To most people, it represents the executive's market value and to some degree his rank in his society.

"As a form of compensation," says the University of Virginia study, "... only a straight salary suggests that the payee is primarily a hired

man, not a part owner or even a professional manager." For the company, salaries are a fixed charge against earnings that can't be quickly reduced in bad times as can, say, bonuses. For the executive, progressive tax rates shrink the real value of higher salaries. So business has turned to other forms of pay to supplement the salary and increase the stimulus. Major forms of additional compensation are:

THE BONUS. This is a means of recognizing an executive's own achievements. It is a direct and fairly immediate type of incentive payment.

PROFIT SHARING. This is a means of letting an employee share in the company's success. It also is fairly direct and immediate.

STOCK PLANS. Stock purchase, option or bonus plans permit the manager to tie his fortunes more closely to the company's. Such programs offer a future rather than immediate gain, providing that the market keeps rising.

DEFERRED INCOME. In this type of pay arrangement, the compensation is delayed until after retirement when the manager's tax liability will be less than during his working years. It also can help hold an executive in a job.

(With some of these forms of compensation, of course, there is no guarantee as to amount or specific value of the compensation.)

PENSIONS AND INSURANCE. Both are protective forms of compensation and are long-range types.

FRINGE AND PRESTIGE BENEFITS. These include use of cars and airplanes, club memberships.

"Symbols of status," says General Dynamics Vice President Robert P. Meiklejohn, "such as long vacations, generous expense accounts, club memberships, executive medical programs, larger and more elaborately appointed offices—with windows and a key to the executive washroom... exert a profound influence on the morale, and hence the motivation, of executives (but are) manifestly no substitute for a sound salary structure."

Most progressive companies use a mix of some or all kinds of compensation to spur the executive. One of the early users of different forms of compensation and benefits, for instance, is General Electric Company. This company had hospitalization insurance and pension plans more than half a century ago. About five years ago, GE developed a compensation plan to fit its decentralized organizational set up so that now a GE department general manager has as much authority over

(continued on page 86)

MONEY NEEDS

continued from page 33

and between short- and long-term uses of funds disappear. Purchasing machinery, constructing plants, acquiring other firms, in fact all investment, may be financed out of short-term bank credit.

The survey indicates that one fourth to one third of all business firms have used short-term bank credit to finance capital expenditures in the past few years.

Bank credit is usually used for investment purposes by executives who believe that "Business consists in using other people's money." According to this fourth type of underlying attitude, it is not the debtor who is dependent on the creditor; on the contrary, it is the lender who acquires a stake in the business of the debtor. Bank credit is short-term only in form; it is felt to be renewable at the will of the debtor.

It is further thought that being in debt with a bank or a banking group makes it easier to borrow additional funds. Even having large liquid funds should not stop businessmen from borrowing from banks. Through borrowing one establishes credit. One should borrow, not when a new project creates a need for funds, but much in advance of such a contingency. Having an assured line of credit makes it possible to act without interference by bankers and without considering changes in the money market.

Small changes in the interest rates are unlikely to alter any of these philosophies quickly.

The survey also puts in question the notion that businessmen, needing or desiring to borrow, commonly shop around for favorable rates.

According to this theory a business firm which realizes the need for making certain investments calculates that by so doing it could make X per cent. It then shops around and finds that it could borrow money at the rate of Y per cent. If X is higher than Y, the project will be carried out.

Today, in this country, most business firms do not shop around for credit. They have one or several primary banking connections which remain stable over many years and from which they borrow. The Survey Research Center study showed that hardly more than one fourth of large and medium-size American business firms have made any changes in their primary banking connections since World War II. Furthermore, most of the changes made consisted in adding new primary banks (often in connection

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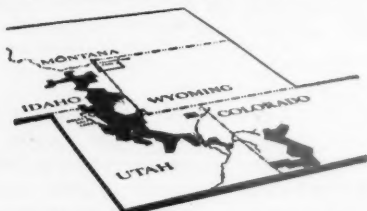
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MONEY NEEDS

continued

with mergers or expansion) rather than replacing old primary banks.

Most executives spoke of the value of stability in banking connections and of the dangers associated with being a bank changer. Tradition as well as inertia plays a large role. Making changes might, perhaps, achieve some small advantages, but these will be temporary. The consensus is that it is better to stick to what one knows and to what one is accustomed than to chase after temporary advantages. Expressions of loyalty to and faith in banking connections that, in many instances, had been established several decades earlier were added to statements expressing satisfaction with existing banking partners.

Banking relations require mutual trust which permits discussion of ideas and plans even before they are in the project stage. This is possible if there are close relations between business and bank executives.

Some executives went so far as to use an analogy between banking connections and marriage: Neither should be disrupted because of occasional disagreements. One feels assured that one will be taken care of in case of need, if businessman and banker are friends of many years' standing.

Overwhelmingly, then, banking connections are long-term, stable relations rather than arrangements made in connection with a single transaction. Similarly, many investment decisions are not the result of narrow profit and loss calculations. Frequently business executives feel that they have no choice in many of their capital expenditures; they are compelled to undertake them. The feeling of compulsion comes from sales trends (even if one operates at capacity, demand by old customers cannot be left to competitors) and from competitors' actions (it is frequently felt that technological innovations made by competitors must be adopted).

In both respects the underlying motivational force is striving for an increase of the firm's share in the market or, at least, striving to maintain the firm's share. Therefore, decisions to invest are often independent of decisions about financing the planned expenditure. What must be spent on new construction and machinery will be spent even if money costs more than in the past.

A further consideration is that capital expenditures frequently represent policy decisions made several years in advance. In no other aspect

of business life are long-range budgets more frequent. Such budgets make for a certain inflexibility of capital expenditures. Many of them are carried out even if new developments—say, changes in interest rates or in sales—make them less advantageous. To be sure, catastrophic events or a basic change in the environment—such as the outbreak of war—may induce sudden and radical changes in plans. But gradual small changes often represent stimuli which remain below the threshold.

For these reasons, when top management determines that capacity should be increased, the task of executives in charge of money is to provide the funds as cheaply as possible. They may take the initiative only with respect to the timing of the investment. They may advise that the investment be postponed if they think that interest rates will fall and the funds might be obtained more cheaply later on. Alternately, when impressed by an increase in rates they expect further tightening of money, they may advise to proceed in a hurry or even to borrow in excess of immediate requirements.

Such basic attitudes toward borrowing as these—long-established convictions and practices about not resorting to external funds, about borrowing for purposes of working capital only, or about borrowing for any and all corporate purposes—are likely to endure.

Yet this is not the whole story. It has been shown that bank credit has frequently been used to finance long-range projects. In some cases such borrowing is done through term bank loans which are intended to be repaid from internal funds expected to accrue in the near future. In many cases the borrower counts on the renewal of the bank loans at maturity. If renewal of bank credit does not appear to be fully assured, tight money may make a difference. In this case, the decision not to borrow may result from fear of not being able to renew bank credit at some future date, rather than high interest rates.

Whether or not this has happened in the recent past is not known. Whether it will happen in the near future cannot be predicted. It is not presently feasible to predict business reactions to new developments.

A start has been made, however, in recognizing the importance not only of facts and figures but also of such equally valid factors as attitudes, traditions, and personal relations. We have seen the necessity for economists and psychologists to join forces if the business picture is to be seen in true perspective. **END**

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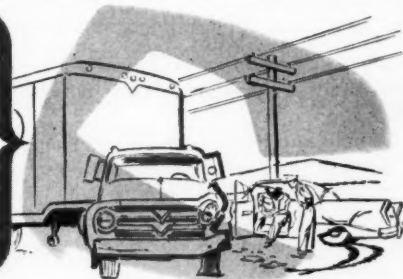
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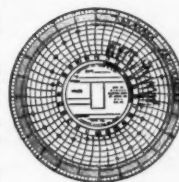
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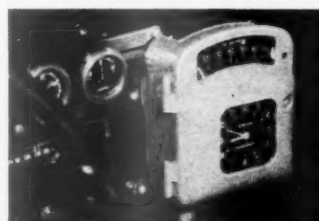
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PERSONAL SELLING GETS NEW EMPHASIS



Manufacturers step up sales aids, training, for independent merchants

THE INDEPENDENT, personal-service merchant is increasingly important in the national distribution system.

To help him meet the growing demands for the type of service he gives best, manufacturers and wholesalers are backing him up with sales assistance worth an estimated \$500 million. Hundreds of thousands of stores are showing the effects of these joint merchandising campaigns.

The independent merchant has survived a succession of changes and new ideas in the distribution field. What's going on today is proof that the smallest merchant can adopt many methods of his larger rivals and come out stronger than ever. As this dawns on manufacturers and distributors, more and more of them are rallying to his cause. But the application of these methods requires careful fact-finding, trained scientific research and, most of all, skillful leadership.

A series of marketing surveys brought out the fact that the independent personal service merchant is an important man.

One of the first of these was conducted by the Bulova Watch Company among 2,000 men and women from coast to coast. It showed that more than 83 per cent of those surveyed wanted to buy their watches from an independent jeweler. It found that, in the customer's eyes, the jeweler ranked first because of the reliability of the store, good past experiences, friendship with the personnel, dependable advice, good service and good selection. As a result, the company has ex-

panded its nationwide program to help the jeweler become a better merchandiser.

In the programs being carried on by suppliers, not the least of the aids has been assistance in maintaining morale.

Says Harry Towers, manager of the National Association of Retail Druggists:

"In the first place, the consumers need the independent. Are the American people going to throw away institutions they developed themselves? The corner drugstore? Their personal butcher? The reliable jeweler? And a score of others like them?"

"In the second place, the manufacturer needs him. You've got to start a new product with the independent retailer. When you can show volume, the big outlets will take it. The manufacturer needs a lot of independent retailers to keep a full line out for his customers."

A number of surveys have demonstrated that the personal service merchant—one who does his own selling instead of leaving it to the display rack—has many valuable assets.

People will buy from him, often overlooking a price differential—under these circumstances:

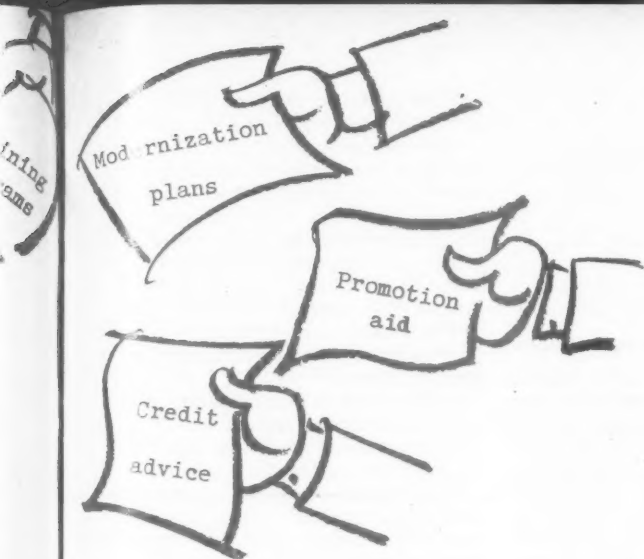
Where they don't have knowledge of the product—or need to choose between two similar products.

Here the customers are not only buying a product; they are buying the retailer's experience or technical knowledge and the feeling of security that they derive from his advice. The customer needs this advice when he goes to the drugstore to buy vitamins, for example.

In cases where operating troubles can develop. This might be something like a television set or an air conditioner. In such cases, the community merchant has a particular advantage because he is available for service.

An item which the customer has to be shown how to operate. An example is a do-it-yourself power tool in a hardware store.

Items on which the customer needs help in choosing



a particular type for a particular use. Varnish or paint for a special household use would be in this category.

Items where special professional skill is needed for selection or maintenance. These include items where fashion is an important element. The fashion authority of a retail store gives the shopper a feeling of confidence.

All of these things come under the heading of personal selling assistance. Beyond these, the personal service merchant has a number of important services which he can offer. Among these are:

Delivery service. Increasingly important with the increasing number of women working.

Telephone orders. People are so busy these days that they'll pay a premium to keep on schedule.

Convenient hours. More and more women work in the daytime. In many other ways, too, family habits have been changing. The family car is free in the evening and everybody goes shopping. More and more stores are staying open to accommodate them. Many have telephone service on Sundays.

Charge accounts. Credit has become increasingly important. More people have become used to buying major appliances on time and they are extending the habit to small things. The charge account is one of the greatest assets of the independent merchant.

Personal acquaintance with the customer. Most people want to be recognized by name; like to do business with someone they know. If the merchant takes the trouble to do so, he can establish a transference or attachment much like that which the patient has for his doctor.

Community status. The local independent retailer has all the advantages in community status. People like their money to stay in the community.

However, when all is said and done, personalized selling is the community merchant's greatest asset. Together, merchant and supplier have recognized the

fact that, to be a better salesman, the merchant and his clerks must have a better knowledge of the product they are selling and they have been working together to provide it.

"But they have also recognized that providing better personal selling does not absolve the merchant from the obligation to run a good store," says Arthur H. White, retailing specialist of Stewart, Dougall and Associates, management consultants. "He has to be a good merchandiser and his establishment has to look as sharp as the chain store or the supermarket. Customers today won't put up with sloppy methods. Nor can the merchant himself afford them. He has to be efficient to survive."

Summing up their efforts, merchant and supplier are cooperating to accomplish these things:

- ▶ Training of personnel in personal salesmanship through: product knowledge, how-to-do-it applications, improved sales techniques.

- ▶ Store modernization.

- ▶ Improved store management; better systems of store records on sales and inventories, business analysis.

- ▶ Better product service.

- ▶ Assistance on installment and credit plans.

- ▶ Better local advertising, promotion and display, community relations programs.

Wholesalers and manufacturers in the drug field, where 77 per cent of the business is done by independents, have done one of the outstanding jobs—in terms of visible results—of working with the retailer. In the main, this help takes the shape of sales training, store modernization, advertising and promotion assistance. A reliable authority in the field estimates that manufacturers, distributors and associations are spending in excess of \$100 million a year in this cause.

Among the manufacturers, one of the most active is Johnson & Johnson, which in 10 years has spent \$750,000 assisting outlets along all three lines. Johnson & Johnson combines them all in a program entitled "Design for Selling," outlined in a three-part manual and supplemented by a circulating motion picture, "Sell as the Customers Like It."

The National Retail Hardware Association, with the help of 25 manufacturers, has a correspondence training course with a registration of 5,000. It will train 12,000 in the course of a year. Hardware suppliers and their associations spend nearly \$50 million a year helping the retailer.

Back of such activity is the industry's serious concern over declining retail profits.

"Profits slipped back from 2.25 per cent in 1955 to 1.90 per cent in 1956," reports Thomas H. Jenkins, of the association's management service. "Since 1946, expenses have increased about 55 per cent while sales have held to the same level. Salary expense has risen 3.8 per cent in the past year; at the same time, average sales per person went up only 3.7 per cent."

In the appliance industry, the personal service retailer has been getting cooperation of such major appliance manufacturers as the General Electric Company, seeking exposure of its products in the optimum number of outlets. It is estimated that appliance manufacturers and distributors will spend about \$200 million this year in such activities.

In the booming toy industry, which has rocketed

from a \$300 million to \$1 billion gross since World War II, retailers, with the help of manufacturers, are beginning to move into new and ingenious areas of personal service: such things as helping the parents choose the right toys, run parties and remember birthdays.

"This is the sort of thing your big outlet can't do," says B. F. Mich-ton, chairman of the board of the Ideal Toy Corporation.

"The personal service retailers must go in this direction because after a while the price competition is going to shake him down and he'll have to sell on a new basis in order to survive."

"Department stores," says Norman Clement, Jr., partner in Cresap, McCormick and Paget, management consultants, "have chosen to evolve in three ways. First, fight fire with fire—meet the competition with its own weapon: price. The stores which have chosen this course are slugging it out on a price for price basis, mostly in branded small appliances and housewares, sometimes closely approaching a self-service or self-selection basis themselves.

"The second policy is: Get out of business on competing lines. Following this policy, some have eliminated such products as appliances; many have cut out food departments

and many have leased low-profit departments to chains.

"The third basis of competition is: Give full service with normal mark-up and improved personal salesmanship."

Now, let's take a more detailed look at cooperative supplier-retailer activity under the six headings into which most of the activity falls:

Sales training and selling services

In the appliance industry, manufacturers are paying more attention to the role of the salesman. Recent surveys, which show that approximately 30 days elapse between the glint in the eye and the actual purchase, emphasize the importance of the salesman as a major factor in the final choice. General Electric's attitude is: If you use advertising to bring the customer in, you need a high degree of personal salesmanship to make the most of your investment in advertising. Or, in the words of one General Electric major appliance marketing specialist:

"National advertising 'brand orients' people; local advertising 'store orients' people; the salesman is always important in getting the customer's name on the dotted line."

As a result of its findings, General Electric is conducting product sales training sessions for retailers through its wholesaling organizations—principally indoctrination on the features of the product itself,

and the methods of communicating these features to prospects.

Perhaps in no other line of merchandising is the need for intimate knowledge of the product as great as it is in hardware. The high cost of "having it done" has turned a vast army of homemakers into "do-it-yourselfers." However, most of these people are amateurs and need help.

They ask:

"What type of fasteners should be used in cement?"

"What kind of paint should I use over the kitchen range?"

"How would I use this power tool on my kitchen paneling job?"

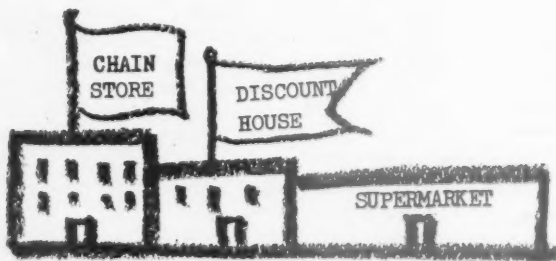
The industry as a whole is recognizing the need of educating salespeople to answer such questions. Five hundred of the leading manufacturers have provided the National Retail Hardware Association with information on preparing a how-to-do-it course—part of its advanced sales cost in hardware retailing.

The NRHA's state associations carry on schools of product knowledge attended by 300 to 400 store owners. Here manufacturers display their products and demonstrate what the products are used for.

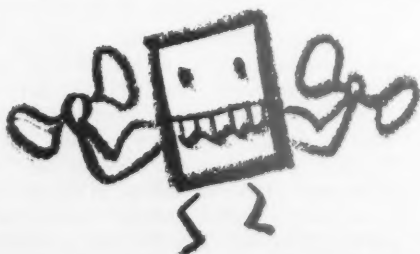
Among the manufacturers, one of the retailer's most aggressive helpers is Reynolds Metals, which handles a line of consumer products through retail stores. Last year, not only did Reynolds put a mammoth picnic-time display in 18,000 grocery stores—including 50 products of other manufacturers—but it pushed "do-it-yourself aluminum" and distributed countless booklets on how to make products including this material. Instructions are given in printed form and the company sends salesmen to teach retailers how to give how-to-do-it instructions.

Among the department stores, the most progressive are engaged in an all-out effort to increase employee productivity. Training courses are on the rise, both in salesmanship and product knowledge. Training films are being widely circulated among cooperating stores. Many of them teach the basic principles of salesmanship; others, largely circulated by manufacturers, give detailed instruction on products. Department managers hold weekly meetings to instruct not only in basic salesmanship but to pass on information about new products. Buyers cooperate in these courses to transmit the latest information about the merchandise they have purchased.

Productivity of precious sales help is being conserved by supplying supplementary workers for less skilled jobs, such as "clericals" and stock-room personnel. Maison Blanche in New Orleans started preparing for



Independent can adopt some of
methods of bigger competitors



and come out stronger than ever

the Christmas rush last summer by laying out new floor plans to make cash registers and reserve stocks more readily available, as well as supplying supplementary assistance for valuable sales help to relieve them of mechanical functions. It all goes to save customer waiting time.

Department stores, as well as retailers in general, are getting increased help from manufacturers in the form of instructions and labels that come with the merchandise. Some manufacturers send representatives to stores to help indoctrinate employees on material. For example, Du Pont representatives instruct the sales people on the use and maintenance of some of the new fabrics.

Many department stores are also adding services for the convenience of the busy shopper. For example, the Lazarus Store in Columbus, Ohio, operates the "Ann Sterling Shopping Service" which shops the store for any item described by letter or telephone, calls back with a description and makes the sale if the answer is "yes." This store has also put intercom phones on pillars. A customer presses a button, names a desired item, and a pleasant-voiced girl gives directions to the counter where it is.

Suppliers of all types of stores often have their salesman supply direct sales aids to retail personnel during their regular rounds. Rules for five such sales aids are these, as listed by R. C. Allen, vice president of Stewart, Dougall and Associates:

Talking points. Finding store clerks unable to tell customers anything about his line of shears, one manufacturer put a layout of several different kinds of shears on a display board. On the back of the board he pasted instructions about every product. When the clerk read the data about each pair of shears, he sounded like an expert.

Samples. After the clerks take a sample of an article home and try it, they are not only able but willing to talk about it.

Displays. Whenever the salesman puts up a display, he should brief the store owner thoroughly about its potentialities and tell him exactly what he can do in terms of continuity and follow-up.

Space use. The salesman can make undying friendships by giving store owners tips on how best to use important selling space in the store.

Talks with clerks. Personal talks puff up the clerks' ego and invariably result in more sales of a supplier's products. Manufacturers and

wholesalers are giving salesmen quotas of calls that assure time to do these things.

Store modernization

By far the most widespread store modernization programs are conducted in the drug industry.

Out of the 20,000 druggists requesting the three-part "Design for Selling" manual put out by Johnson & Johnson (sales training, store modernization and advertising-promotion), more than 30 per cent had started modernization within 90 days. A company survey of 1,000 druggists requesting the program showed that 89 per cent used it.

Individual druggists report striking results:

"The effectiveness of our remodeling program was proved by a 300 per cent increase in business," reports a store in Seattle.

"Our poorest day is now better than our best day before," is a report from Brooklyn.

McKesson & Robbins, Inc., offers a special plan supported largely by the sale of drug fixtures on an easy financing plan. McKesson claims its store modernization service is one of the most extensive in any channel of distribution. More than 60 store designers operating in 45 states have modernized one out of every seven drugstores in the country, in the past six years, the company reports.

Other manufacturers and wholesalers also provide a variety of services. For example, Ketchum and Company of New York, offers the druggist opening a new store a service which includes the planning of store layout, physically moving the stock and shelving it, and even providing experienced clerks during the opening day.

In another industry-wide program, the National Retail Hardware Association provides engineers to help its members modernize stores.

Interesting modernization projects are being carried on by individual department stores. The Richards Department Store in Miami, has revamped its whole establishment to speed service and make it easier for the customer to find things. Giant directional lettering identifies departments. Walls are done in arresting colors not only to glamorize the store but for greater ease in giving directions. Signs, labels and instruction on the merchandise not only give quick and easy information on size, material and price, but also make it easy to find. Richards also speeds handling of stock by storing it in specially designed fixtures, cases and bins for accessibility.

Improved store management

The drug, jewelry and hardware

Now Major Medical Protection for Firms with 10* to 24 Employees

Travelers Special Group and Special Employee plans now include Major Medical Expense Insurance.

By providing this protection for your employees and their dependents, you furnish the means to cope with personal disaster and add to day-to-day confidence on the job.

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*Minimum of 15 employees required in Florida

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fields lead in the dissemination of information on store management. An outstanding example is the school for jewelry store owners and managers run by the Bulova School of Watchmaking, supported by the Bulova Watch Company. In cooperation with the New York University School of Retailing, the company conducts semiannually a two-week course in jewelry management and merchandising which brings in men and women from all over the United States and Canada.

The course is practical, intensive and hard-hitting. Its teachers include not only university retailing specialists but successful jewelers as well. It deals with gems, crystal, silverware, china, engraving and other services.

The courses cover advertising and sales promotion, product instruction, selling and sales training, buying and merchandising. But mainly they concentrate around store management—store organization, financing and budget control, accounting practices, tax problems, merchandise management and sales planning, and stock control systems and pricing.

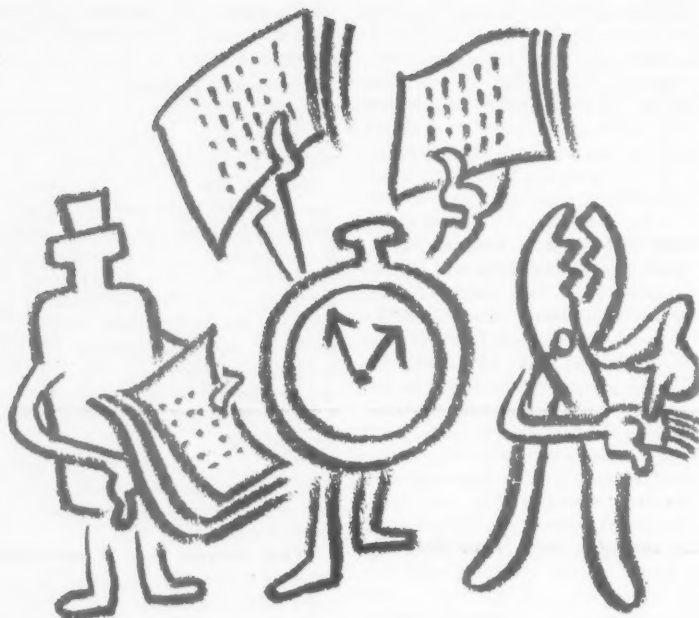
To members of the National Retail Hardware Association private and confidential discussions of store operation are made available. Advice distilled from hundreds of contacts with other dealers is shared with NRHA members through association staff specialists.

In the drug field, any number of wholesalers advise retailers on store management.

Henry B. Gilpin, drug wholesaler of Washington, D. C., offers his customers a financial department to make detailed business analyses for more efficient operation.

Eli Lilly & Company runs still another kind of service. Hundreds of druggists in all categories send in operating statements and, with these as a basis, the company then gives pointers on what's out of line. It also uses these statements for gathering financial statistics of value to all the cooperating retailers.

Stimulated by the current cost-profits squeeze, new methods of more efficient store accounting are now being evolved. One of these is merchandise management accounting, which cuts through the maze of old costing practices to figure the profitability of the individual item. Thus, a store management can price each item according to the profit it contributes. Then the customer can get a price break on many items



Drug, jewelry and hardware fields lead in the dissemination of store management information

where he has heretofore been smothered by a blanket mark-on. The store manager can compete more realistically on many mass market items where he previously thought he was priced out of the market.

"This kind of costing will allow the retailer—particularly the department store—to follow a more realistic pricing policy, which recognizes variations in the need for personal selling among products," says Carl Hoffman, director of McKinsey and Company, marketing consultants. "Department stores need to emphasize the type of merchandise and the price lines that will appeal to their clientele. The trouble with many department stores is that they allocate too much space to lines of merchandise that are of no interest to their customers."

Better product service

In any products where operating troubles develop, service is one of the personal service retailer's best assets.

More progressive retailers are doing so and in some cases the distributor is beginning to get into the act. Kaufman and Straus, of Louisville, Ky., has worked out an arrangement on Westinghouse products whereby its jobber assumes the responsibility for deliveries, installations and service. The store provides only the

showroom and the credit. This is an arrangement which shows great promise of solving some of the knottier costing problems, both for the store and the jobber.

In the merchandising curriculum of Bulova School, repair and engraving are listed high among "services and devices which the retail jeweler can utilize to his advantage in dealing with present-day competition." Courses on the subject get major attention in the school.

Installment and credit plans

Manufacturers and associations in several industries help the retailer set up improved credit and installment buying practices to compete with a growing volume of credit business on the part of mail order houses and discount houses.

The National Retail Hardware Association helps dealers handle credit problems with its hardware budget plan, which shows the dealer how to handle financing, service charges and collections, so as to add a financing profit to his merchandising profit.

Advertising, promotion, displays

In all branches of industry, assistance in advertising, promotion and displays is probably the most widely dispensed aid to retailers. In many fields it is liberally included in the

programs of manufacturer, distributor and association:

General Electric Company's major appliance distributors provide local advertising tie-ins and promotions based on the manufacturer's own national product advertising.

The National Retail Hardware Association provides members with mats for advertising, suggests window displays and provides countless promotional innovations.

In the Bulova-NYU School merchandising experts and practicing jewelers pass along the latest methodology in sales promotion and the selection of advertising media, construction of advertisements, advertising budgets and plans, store publicity and promotional ideas, principles and practice of display.

Necessity has inspired some interesting promotional inventions in the toy industry. One dealer, for example, has developed a number of ingenious devices to build up a following in his community. He has a special truck which looks like a circus cage; it fairly screams "TOYS" as it goes around town making deliveries. His packaging is distinctive, with special colors and designs. He advertises regularly in the local papers and has made himself a personality in his community. He sends birthday cards to youngsters all over town. He gives talks to women's clubs on choosing the right toy for the right age. He tells parents: "Let me run your neighborhood birthday party; I'll provide all the decorations and doodads you need and advise what kind of toy to buy."

Revell, Inc., makers of hobby kits containing planes, boats and other objects dear to the boy's heart, carries on a huge, nationwide program of assistance for the retailer.

"In our experience," says Lewis H. Glaser, Revell's president, "the smaller independent retail outlets have three main problems: lack of ready cash, lack of space and lack of merchandising know-how. We help with the first two by granting liberal credit and by packaging to suit the store's space limitations. On the third, the company sends special sales representatives all over the country to educate dealers on effective display, sales techniques, promotion and community relations."

The company sets up promotions with local institutions, notably the Boy Scouts, branches of the armed services and the Ground Observer Corps. Navy recruiting offices, for example, run contests in building ship models and put the winners on public display. Boy Scouts construct task forces for Navy Day observances in the stores. And sometimes, in contests involving minia-

ture airliners, Revell even brings the winners to its California headquarters via one of the airlines.

These, then, are a few of the highlights of what is going on in retailing all over the country today. Once more the wheel has made a full turn, just as it has already turned so many times before. The "one-man" retail store, dating back to colonial days, was our first real business institution. Then came the department store and everybody said that this new shopping center would surely ruin the "one-department" business. Next, came the mail order house and all the experts predicted that it would surely be his doom. Then came the chain store; then the supermarket; and, then the discount house. The independent survived them all and today stands in a better position than ever.

What's going on today is proof that the smallest merchant can adopt some of the methods of his larger rivals and come out stronger than ever. As this dawn on manufacturers and distributors, more and more of them are rallying to his cause. With their assistance, he can have all the advantages of large-scale operation.

But the application of these methods requires careful fact-finding, trained scientific research and, most of all, skillful leadership.

To those who meet these requirements, tomorrow's rewards will be great. To quote Malcolm P. McNair, Professor of Retailing at the Harvard Graduate School of Business Administration:

"In the economy of the United States we have long since passed the point where the retail merchant is merely the purveyor of the stark necessities of food, clothing and shelter. With 41 per cent of our family units enjoying income of more than \$5,000 annually and with an increase of 158 per cent in the discretionary spending power over the past decade, the retailer stands at that magic spot where an increase in the standard of living comes into being, where the hopes, the aspirations, the dreams of the people are translated into better living.

"As we evolve further the kind of economic system we have in the United States today, so much more important and so much more critical becomes this task of retail distribution, both from the standpoint of consumer satisfaction and from the standpoint of effective functioning of the economy. Becoming a good retail merchant in the American scene of 1957 is at once a challenge to ability and an opportunity for service."—PHILIP GUSTAFSON

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Planning change?

Check these factors

New study tells how business firms can make reorganizations less troublesome

THE ESSENCE of successful change lies, as many believe, not in the design of a new organizational plan but rather it depends on the ability of the president and his senior executives to alter their behavior in accordance with the new principles which the plan seeks to realize.

The grip of the past on the present is well illustrated by the case of a manufacturing company whose president prided himself on the extent to which operations had been decentralized. What he failed to realize was the extent to which his own behavior was at variance with the principles to which he was dedicated.

Every morning on arriving at the office he would

call his vice president for manufacturing and inquire about yesterday's production. The vice president, knowing that the question would be asked, would have come in an hour earlier to telephone the field for the information.

The plant managers, anticipating this call, would have come in still an hour earlier to review their situation and if necessary to prepare an explanation for an unsatisfactory output. To confound this situation further, the vice president did not hesitate to give technical advice over the telephone to any plant manager who had encountered difficulties.

The importance of the president's altering his be-

For management consideration

This article is a condensation of a book, "Effecting Change in Large Organizations," to be published this month (copyright, 1957, by the Columbia University Press, 2960 Broadway, New York, N. Y.—\$3.50). The authors are Dr. Eli Ginzberg, professor of economics in the Graduate School of Business and director of the Conservation of Human Resources Project at Columbia University, and Ewing W. Reilley, president of the McKinsey Foundation for Management Research. Assisting were two psychologists, John L. Herma, of the staff of the Conservation of Human Resources Project, and Douglas W. Bray, formerly of the Project staff and now personnel research supervisor for the American Telephone and Telegraph Company

Balance sheet for change



Some probable costs outweigh possible gains

Psychological factors



Three steps will ease acceptance of change

havior in dealing with his principal associates is even more pointedly demonstrated by the case of one chief executive of a company that had recently adopted a divisional type of organization. Upon discovering that the company's maintenance costs were rising, he told his functional vice president for manufacturing to take action.

The president had forgotten that under the newly established plan, responsibility for maintenance, except for technical advice and consultation by the corporate functional staff, had been assigned to the general managers of the decentralized operating divisions. When he asked his vice president why "your" maintenance costs are rising, he was acting directly at variance with his own plan.

Only a very secure executive would have reminded the president that he no longer had operating responsibility in this matter but that he would, of course, immediately alert the general managers to the need for corrective action.

Although a president will usually have difficulty in altering his behavior to conform with a plan of change, there is one important element of continuity in his work. He remains at the helm—the officer responsible for the success of the enterprise.

Quite different is the situation of his key associates. Not only will their work patterns be radically altered, but they may become uncertain about their status and prestige. The vice president for manufacturing, for instance, finds himself transformed into a planner, a policy-maker, and an appraiser of results. His responsibilities may be even more important than formerly, but he has lost many of the trappings of power that were his in the past. He can advise, suggest, recommend, but he cannot, in most instances, order.

The newly appointed general managers also face serious problems of adjustment. On the day the plan

is put into effect they become major executives, but they have had no experience in carrying full responsibility for major decisions.

Now they must be able to budget, determine production plans and schedules in light of the market, supervise sales, plan new product development and assume responsibility for the thousand and one details that will determine the efficiency and profitability of their sector of the enterprise.

Balance sheet for change

The final decision to change or not to change requires that management balance prospective gains against probable costs.

The ready acceptance of change is deeply embedded in American life. Moreover, the type of economy we have developed has made businessmen willing to consider and adopt changes that promise to strengthen their organizations.

Over the years American business enterprises have come increasingly to be managed by executives whose working lives are spent largely within a single corporation and whose aims and ambitions are interlaced with those of the institution. As they move toward the top, their earnings become substantial, but the directing force in their lives is not the accumulation of personal wealth so much as securing and enlarging their power of decision-making in order to influence the organization which they help to direct.

These executives cannot possibly accomplish their major goals unless they introduce changes. The tolerance, even eagerness, of many executives for large-scale changes has been stimulated by developments within the field of management itself. A built-in dynamic within the field of management is exerting varying degrees of pressure on executives to bring their

Preparing the plan



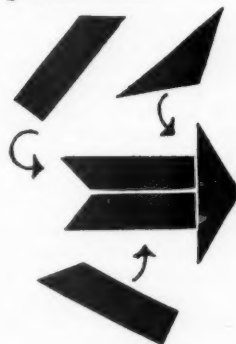
One man holds key to development

Initial implementation



Starting right, making key moves can aid success

New behavior patterns



Success hinges on altered policies and controls

PLANNING CHANGE?

continued

organizations more nearly in line with the most modern doctrines.

Another aspect of the American economic scene is the importance of selling, style and service. Except in unusual periods of material or labor shortages, production seldom presents special problems. The key to profits lies in sales.

Trained talent is always scarce, and when the demand for it suddenly increases rapidly, careful consideration must be given both to protecting what one has and developing what one needs. Unless the power concentrated in the hands of the president in a highly centralized organization can be redistributed among a group of executives, it will be hard to attract and hold able men.

American management is also encouraged to adopt a positive attitude toward change by forces originating largely within the corporation itself as it responds to new developments in ownership, management, technology and production.

In spite of these pressures, senior executives are often inhibited from initiating major departures from customary procedures. Many managements will think long and hard before introducing major changes which, whatever their long-run value, tend to unsettle established relations among the individuals and groups which have made a success of the enterprise.

Inertia is inherent in individuals and organizations alike. Some executives who recognize that major alterations can improve the long-run prospects of their organizations, nevertheless hesitate to act, in the hope that the old structure will prove adequate.

A major proof of dynamic management is its ability to perceive correctly and to respond effectively to conditions that necessitate changes. Management must determine that the gains will justify the costs. The key considerations are the competitive position and the personnel resources of the organization.

One manufacturing company had made careful plans to decentralize and then started to put them into effect in 1951 but only after concluding that a substantial business recession was improbable in 1952 or 1953. The management did not want to find the company in a declining market with its organization in flux. However, it was willing to expose the company to the risks involved if it were likely that business would remain good.

In deciding whether to proceed

with a plan of major change, a cautious management must estimate whether it has the men capable of meeting the new assignments on which success depends. Unless qualified men can be found within the organization, or can be brought in from the outside, a wise management will delay introducing its plan, no matter how constructive the changes would be. Alternatively, it may recast the plan in light of the available personnel resources.

In preparing a balance sheet for change, management must consider, in addition to financial and personnel resources, the pressures exerted on the company from the outside.

The reception of a plan for change will be greatly affected by the attitude of the organization toward top management. If the president has a reputation for being a successful and fair leader, his plan will be largely accepted on faith. But an established management, jealous of its reputation, will be cautious about introducing changes which may unsettle senior people. It may prefer to modify or hold up the plan rather than to risk a decline of morale.

Psychological factors

Top management must recognize that success in carrying out major changes will largely depend on how well it mobilizes the psychological forces that can facilitate acceptance of the new, and how well it diminishes those forces which reinforce adherence to the existing pattern.

A first important factor operating in favor of change is clear evidence that the leadership is strongly supporting the new proposals. In general, people seek to please their leaders for they stand to gain thereby. For this reason it is important that no one remain in doubt about the position of the president.

Another powerful force working in favor of a management is the realization of most individuals that their own future is intimately linked with the fortunes of the company.

But another aspect weighs on the other side. Not knowing what is involved in a major reorganization, some men who are less sure of themselves may fear that there will be no job for them in the new structure or only one of less importance.

Another element militating against changes involving decentralization is the fact that people do not relinquish authority easily. Thus while a change-over will frequently encounter resistance from those in top positions, it will receive strong support from the managers in the field who will gain in authority.

In one manufacturing company,

the financial vice president seemed intent on preventing full implementation of a program of change transferring considerable authority from headquarters to the field. However, most of those down the line, recognizing that this change promised relief from previous difficulties, moved rapidly to accept the decision-making power and responsibility. The opposition of the vice president stood no chance of success.

For schematic purposes, the process of change can be subdivided as follows: preparation of the plan, the announcement and initial efforts at implementation, and the follow-through, during which major efforts are made to establish the new patterns of behavior on which the success of the plan finally depends.

At each stage, management is in a position to take actions which can facilitate or retard acceptance of its plan. There are three principal mechanisms at its disposal:

- ▶ Effective communications.
- ▶ The control of anxiety.
- ▶ Learning new skills.

The aim of effective communications is to transfer information from one person to another with as little distortion as possible. Members of an organization must be given a chance not only to listen to the plan that their leaders have worked out but must be able to ask questions about it. The original proposals can be filled out only by those whose responsibilities and functions are to be altered.

While many men can adjust to change without difficulty, others are likely to become uneasy, if not upset. But anxiety is not always a counter indication to proceeding with a plan. In fact a small amount of anxiety may facilitate acceptance.

The president of one company, for example, was advised that he should delay introducing changes because a morale survey showed considerable discontent. He refused to follow this advice, believing that if people are asked about how they feel, they will always call attention to their aches and pains. Moreover, he was sure they would respond positively if they saw that action was being taken to rectify the unsatisfactory conditions.

The more management understands about the likely sources of anxiety in change, the better it will be able to prevent or at least contain them. If management recognizes that many employees are uneasy because they expect that the change may separate them from their group and their superior, they can give early reassurance wherever possible that such a separation is

not contemplated. A management can more readily obtain acceptance of its plans if it makes special efforts to win the support of group leaders.

In a major organizational change, men may suddenly discover that their experience will not enable them to cope adequately with their new functions.

The learning of new skills involves not only the learning of new techniques but of new relationships, and the new cannot be learned unless the old is unlearned.

Learning can be said to have four components. Drive or motivation is the first. No one learns unless he wants to learn. In business, men seek more income, authority, prestige, approval of their superiors or respect from their associates. They are also propelled by their own standards of accomplishment.

The second component is "cue," which refers to those elements in the situation which indicate when and how a man is to respond. Contradicting one's superior may be rewarding if it prevents him from making a serious mistake. But a person must learn that some superiors do not want to be corrected under any conditions while others will tolerate such behavior only when no one else is present. Unless one knows the right cue one cannot respond correctly.

Response, the third element, refers to the type of behavior necessary for learning. It is not true that an individual can usually learn everything by sitting and listening.

The final element is reward. A drive that is not rewarded will soon lose its force. Many people are willing to make the effort to learn new skills not because the experience is directly satisfying, but because they realize that they can accomplish important goals only if they acquire additional competence.

One lesson for management emerges from this. The more men can discover for themselves the need for change, the more likely they will be to accept it. Likewise, the more men become involved in the search for solutions, the more readily they will acquire the ability and the skill which they will need to operate successfully under the new situation.

Preparing the plan

The key to the development of an effective program of change is the president.

He must recognize the need for change and be willing to devote considerable time and effort to the development of a satisfactory plan. Although he cannot undertake the

(continued on page 84)



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says **FRANK SCHWINN**, Vice President,
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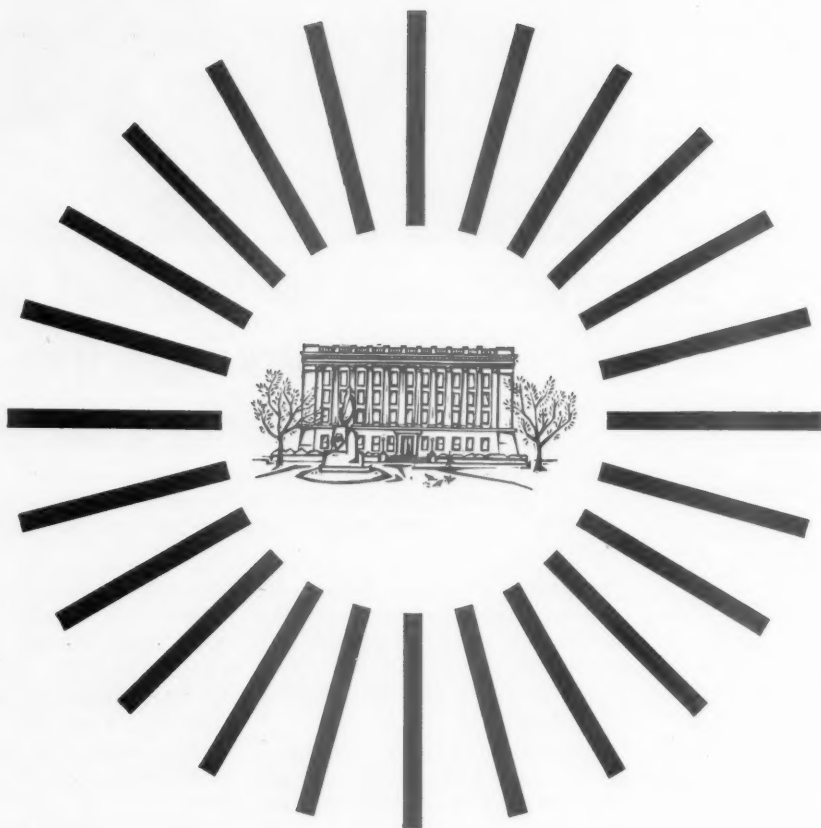
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PLANNING CHANGE?

continued

task himself, he must be willing to work with the organizational planning team whom he selects to help him. The success of their work will depend on establishing and maintaining effective rapport with the president, and on their skill in eliciting the cooperation of many members of the organization through interviews and discussion.

Completion of the plan depends upon insuring that key personnel are available, designing instruments of control, proper staging for introducing the changes, and the allocation of adequate resources.

The top management of one company which had grown very rapidly became aware that the personnel division was making decisions involving thousands of people who were working thousands of miles from the main office.

Investigation disclosed that the operation of personnel was only one aspect of a larger difficulty. It became clear that none of the major divisions could operate efficiently without organizational changes that would shift to the field a large part of the responsibility previously carried at headquarters.



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The president of a company may or may not be among the first to become aware of the need for a change. Until he does, not much is likely to happen. After he does, what happens will depend primarily on him.

He must seek assistance from people inside or outside the organization who can interview the several levels of management; sketch out alternative proposals, call to his attention relevant information to clarify his own mind about which course of action to pursue.

Effective relations between the chief executive and the planners are never established at a single conference; they result from a continuing interchange in which the president has an opportunity to respond informally to alternative solutions and the planners have an opportunity to sharpen their conception about what type of plan he will accept.

Interviews with key executives and managers make it possible for planners to learn about problems connected with the daily operations of the company and their possible solutions. This is essential material.

Another task facing the planners is to help the president determine on the timing or the staging of the changes. Since the time element is often uncertain, the president may see advantages to setting a more modest goal; to affect initially only part of the program.

The final step in preparing the plan involves budgeting resources required to put the changes into effect. The importance of this stage sometimes is ignored. Top management will have to devote considerable time and effort to explaining the changes to the organization, will have to make allowance for mistakes, will have to align major policies and procedures so they are congruent with the new structure.

Initial implementation

The methods of implementing changes are varied. A management may decide to place stress on a formal announcement. Or it may prefer to rely on informal individual and group discussions. There are many options in between.

The formal announcement is a convenient tool for making clear the essential facets of the process of implementation. The method used may have a material effect on the way it is received. Every organization uses certain ceremonials on auspicious occasions. Therefore the significance of a particular move by management will be judged by whether ceremonials and trappings are used.

There are no simple rules of thumb

for determining the ideal time for the announcement. The relevant criteria are, first, the readiness of the plan and, second, the problems that will arise from delay.

Among the issues to be presented in a formal announcement are the reasons which led management to develop a plan for change. In this connection the management probably will want to stress the opportunities for the organization to grow and enhance its profits. If the reason for change is a deteriorating economic position, this fact should be underscored, but emphasis should be placed on the way changes will help reverse the trend.

It's also advantageous if the announcement makes clear how shortcomings that previously interfered with the work and satisfactions in the organization will be righted.

In all its presentations, the leadership will help allay uncertainty and doubt if it stresses the long-range objectives of the changes.

In the announcement of a plan which consists of a major alteration in organizational structure, emphasis should be placed on the future governing principle. Where a move is made toward decentralization, for example, the emphasis is placed on the fact that more and more authority for decision-making will be transferred to the man on the spot.

While the announcement cannot include details, it should delineate the responsibilities that attach to each level of management. Since the plan will entail some inevitable costs, the announcement should include mention of them.

Management also should announce that the new plan can be successfully implemented only if many will attempt to acquire new skills.

The announcement should indicate the numerous devices management plans to use to insure active participation of the executive group, the establishment of discussion groups, formal training courses, task forces that will enable individuals to spell out detailed responsibilities and relationships.

At the time of the announcement the president will have in his kit a statement of the new philosophy, the chart of the new organization and the assignments of key personnel. This is an absolute minimum. At this time it is usual for the president to set out his conception of the new structure and of how people will operate under it. Presentations also will be made by key executives.

The major device for enabling key executives to increase their understanding of and competence to handle their new assignments is to in-

volve them in working out the multiple problems that the restructuring has posed.

One conventional approach is to establish several task forces, the members of which are drawn from one or more sectors of the business, to hammer out responsibilities, authority and relationships.

A device that can be used in this work of specification is the preparation of responsibility distribution charts, where each person notes specifically his understanding of his new functions and how his work is related to that of others. Duplication and possible conflict, as well as omission, can often be uncovered.

Translating concepts into action is always difficult. A senior official who is acting as the head of a task force can present a problem to the group, such as the steps to be taken by a company in the event that a new and lucrative order were received which required a rescheduling of the flow of work. After the group works through this and similar problems, it is likely that the members will have clarified many points about the new structure and about their own functions.

Still another way to specify the functions and responsibilities of the key personnel is to prepare a company manual.

Such efforts provide a check on the basic soundness of the plan. If changes or adjustments are required, the need for them will almost certainly be revealed as various groups seek to work out their new responsibilities and relationships.

New behavior patterns

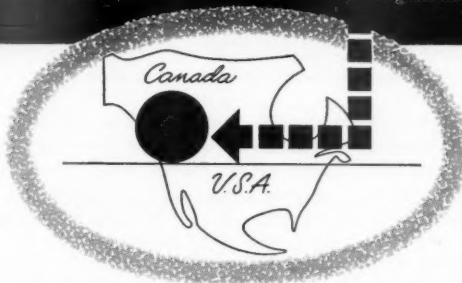
The challenge that management faces is to alter the basic mechanisms and controls available to it in such a manner that they contribute both individually and collectively to bringing about the changes in behavior required to make the new plan a success.

To this end, management must introduce appropriate changes in its personnel policies and in its control measures; it must also provide for audit and feedback of the changes that are instituted. Finally it must consider to what extent it can accelerate the learning process by a series of formal learning devices.

If the chief executive does not feel he has potentially competent executives to fill key posts, he may decide to bring new men into the organization. But to appoint outside men to top positions has disadvantages. Morale of those within the organization may be affected.

A management can ease acceptance of a plan of change by acting

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PLANNING CHANGE?

continued

quickly to align its system of incentive compensation or to introduce one.

A further adjustment warrants comment because of its contribution to the long-run effectiveness of the new structure.

Within a decentralized plan of operations the promotion system must permit greater opportunities for the transfer of men both among functions and among major units. Thus an able man, irrespective of his current assignment, will be considered for any opening for which he is potentially qualified.

The most important leverage in any organization is the power to promote men to key positions and relieve others. The wisdom that a management displays in using this power will affect its success in implementing a program for change.

If a plan for change is to have every chance of succeeding, management must also be alert to the key official who cannot or will not make his peace with the new organizations. Such behavior, unless checked, can prove disruptive.

Over the years, many managements have become sensitive to the importance of using modern personnel methods which stress agreement by consent rather than by coercion. Yet the need for discipline remains and its proper use in periods of change is most important.

To relieve major units of centralized control does not mean responsible officials can afford to permit new units to function without check.

To develop appropriate measures of control requires first, the determination of the conditions essential for the long-term success of the company; second, criteria which will reflect these conditions; and, third, objective measurements of the results of the operating divisions.

There was a time when management placed almost exclusive reliance upon a few simple financial measures, such as dollar profits and earnings on investment. But alert managements have come to recognize that they must measure a much broader range of factors, such as the share of the market, the introduction of new products, productivity, the development of key personnel, labor relations—elements which exercise an important influence on the welfare of the enterprise.

The importance of relying on a series of measures rather than on one or two financial criteria is suggested by the following case:

For a long time a large company

had considered the managers of two of its principal divisions about equal in competence. It based its judgment on the parallel rate of increase in volume and profits. However, in connection with a more thorough analysis of the two divisions, management learned that over a period of years one division had been losing its position in the market despite a rise in volume, while the other had made striking advances.

Another determination top management must make has to do with the critical factors in its business; the measurement system must place appropriate stress on each element.

One company whose success depended on service to customers had for a long time used statistical control measures whereby each division was graded as above or below average. After a change-over to decentralization local managers sought to eradicate deficiencies in the service which they were rendering with the result that costs advanced rapidly. When headquarters saw these increased costs, it ordered an across-the-board cut. Local management was being judged only on costs, not on the quality of service which it was providing; and headquarters was instituting performance standards governing the field's relations to customers without adequate consideration of the costs involved in

meeting them. What was needed were appropriate measures of both quality and cost.

If management can identify the strategic factors in its business it can then concentrate on developing measuring instruments that will provide it with information better to enable it to exercise control.

There is one additional assessment device which bears not on the efficiency of current operations but on the effectiveness with which the program is being implemented.

Management must provide, as an integral part of the implementation process, for feedback of the adjustment in the field to the changes that are underway. In addition, an audit is usually necessary at the end of about two years so that management can assess the progress that has been made. Such an audit must determine not only whether the new formal structure has been effectively installed but whether the new policies are being followed.

The main benefit from feedback is the check which it provides on the degree of congruence or diversity among the members of the organization in their understanding of the objectives and procedures outlined in the plan for change. If there is divergence, top management can move to restate the principles and in the process seek to clarify them. **END**

EXECUTIVES' PAY *continued from page 68*

salaries as the company president had a few years ago.

The company devised a set of compensation tools, however, to assure fairness throughout the organization. The salary structure for employees exempt under the Fair Labor Standards Act, with 28 levels from beginner to president, was established. Each exempt job in the company is evaluated into this salary structure. For each position generally a 35 per cent salary range permits matching pay to performance.

A couple of thousand top level GE people have the chance to earn incentive compensation based on their contributions toward specific goals determined in advance. Half of this incentive pay currently is in stock. For officers, this half is contingently deferred until they retire.

Another example of financial incentive is GE's stock option plan, tighter than most, under which options have been currently granted to about 1,200 key employees. Options for this GE stock are issued at the full market price on the date granted. The total number of shares

authorized by the share owners for the stock option plan is only a small percentage of the total shares outstanding. Those taking the options profit only if the market value increases. This, of course, would benefit all share owners. Insurance and pensions also are available.

"There is a growing awareness of the need for more study and research into what incentives are required to attract, retain and motivate the people we need," says GE's Mr. Case. GE's program is constantly under review as to its effectiveness in attracting, retaining, and motivating all employees, he says.

He adds: "There's a lot besides money that motivates—challenge of work assignments, the urge to excel, promotion opportunities, to mention a few, and I suppose in some cases, even the thickness of the carpet or size of an office. If you choose the right incentive, you can help assure long term success and reward for the company and its shareholders, employees, customers, suppliers and dealers. If you don't, you can jeopardize the interest of all these." **END**

SEN. McCLELLAN

continued from page 41

adopt the ethical practices codes established by the AFL-CIO or similar codes, and every union official should pledge observance of the high standard of conduct and ethics they prescribe.

How can a businessman help the committee?

By reporting to the committee any knowledge or information he may have of wrongdoing and be willing to testify accordingly.

What do you see as the outcome of the committee's investigation?

Certainly it is to be hoped that this investigation will not only establish the need for, but will result in the Congress enacting remedial legislation to correct the abuses and to prohibit the improper practices that now prevail in labor-management relations.

It should strengthen honest and legitimate unionism—improve labor-management relations by eliminating collusion, corruption, extortion, racketeering and other evil activities that are now being employed in the exploitation of union members and management to the detriment of both, and the general public as well.

HERE ARE the kinds of legislation individual members of the McClellan Committee have suggested as desirable to cope with union corruption and improper labor-management practices:

Funds: Protect both welfare and dues-treasury funds; make union officials accountable for funds as trustees; require public disclosure.

Compulsory unionism: Abolish compulsory membership under a national right-to-work law.

Monopoly power: Eliminate union immunity from antitrust laws.

Secondary boycotts: Make Taft-Hartley restrictions against boycotts effective.

Union democracy: Regulate election of officers; control trusteeships; protect rights of members; deny tax immunity to unions which do not conform to approved practices.

Labor-management relations: Tighten restrictions on collusion; ban organizational or blackmail picketing; make union contracts subject to consent of members affected.

Criminals: Bar them from union office; prohibit transportation of hoodlums across state lines to commit labor violence.

Politics: Tighten restrictions on use of union dues funds for political activity.

END

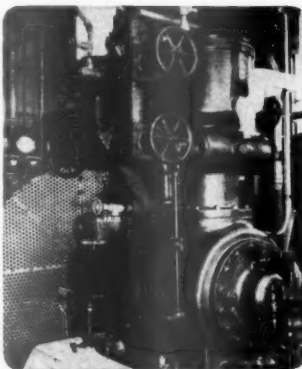


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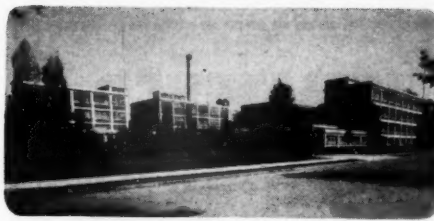
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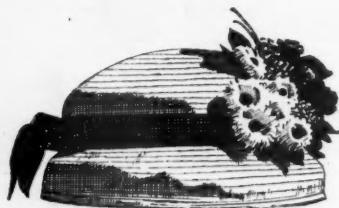
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Executive Trends

Five elements needed for sound decisions

New light on the factors present in the making of successful business decisions comes from an unpublished historical study of a 15,000-employee company just rounding out 50 years of service to the public. The company assigned one of its managers to study the firm's history, with special emphasis on those periods in which decisions were made which successfully changed the fundamental direction of the organization. The findings suggest at least five basic conditions are needed for successful decision-making.

►The five conditions include, 1, enough time, 2, enlistment of the positive talents of many people in the decision process, 3, an atmosphere of freedom to maintain a critical position, 4, absence of pressure from top management for false unanimity among those participating in or contributing to the decisions, and, 5, genuine participation in the decision process by those who will have to carry out the decision.

Participation is most critical factor

This study and other recent researches into decision-making point up the value of the participative approach. Managers must realize that it is human nature for an individual to give greatest support to his own ideas, proportionately less to those of others. If you can make your management team members feel that they have contributed significantly to major decisions, you will avoid the subconscious sabotage of the decisions which you make yourself—without advice—and then order other people to execute.

►If you doubt the validity of participative management, consider the point raised by one outstanding lecturer on management methods. He asks if your problems are not seen in a somewhat different light by you, your superior, your associates, and your subordinates. The successful manager is one who learns to see the broad view, relating individual views to the main objective.

Should group action be a rule?

The answer, of course, is that managers should learn to use groups as an aid to improved management, not as a cure-all. In evaluating personnel, in decisions on pricing, production and other matters, there is still no convincing evidence that an individual executive should not give the final nod. Deification of group-think is a step to conformity and mediocrity. Aware of this, one industrial leader has called for cultivation of individualism with intelligent use of committee planning, brainstorming and stress on teamwork.

►The help given by participative action is not and should not be a substitute for responsibility. In face of this, the manager who encourages committees

and group thinking should take pains not to stifle individual creative energy. This is dramatically evident in the case of the new member of the team—one who brings fresh insight and a viewpoint yet uncolored by established patterns of thinking. The period in which such a man's viewpoint is in this phase may not extend much beyond six months.

Here's late data on committee use by industry

A survey by the American Management Association underscores industry's growing reliance on committee management. Two thirds of 79 executives responding report that their companies have more committees operating today than five years ago. The committees are doing a number of things. In most cases they are being used as implements of communication—relaying information, generating ideas, serving as a platform for exchange of ideas.

►The survey shows that individual executives have the last word in most firms in five major areas of decision making: pricing, advertising and promotion, production, volume, personnel policy and hiring executives. Long-range planning and capital investment decisions reside mainly with boards of directors. Biggest headache: too few men devote the same time, energy to committee work as to a problem which rests solely on their own shoulders.

Debate over executive appraisal

An increasing number of organizations are turning to so-called group appraisal for evaluating performance by individual executives. In many companies this works in the following way: Periodically a manager's superiors meet to discuss his development and progress. This group, in turn, seeks appraisal of the manager from the manager's peers and subordinates. This gathering of information on a multilateral basis is said to turn up a comprehensive body of facts on which decisions involving promotion, training, and reassignment of function can be made. In general, companies using the group appraisal technique report it is working well.

►Here again, however, it should be noted that the group contribution does not erase individual responsibility. Its main value is in assembling facts and in its many-faceted view of an individual's work. An individual manager still retains the ultimate responsibility for the development of those he manages. The more men he trains to do his job, the wider the choice his superiors will have when the problem of his replacement arises.

Guidelines for successful mergers

Munro Corbin, vice president and assistant to the president of Rockwell Manufacturing Company, Pittsburgh, offers some interesting comments on the symptoms which add up to corporate indigestion in an acquisition program. Some of the symptoms he cites are, 1, a conflict in corporate policies (such as centralization versus decentralization), 2, financial disharmony (exemplified in many cases by conflicting types of financial controls employed), 3, marketing divergences (disparities in sales organization and methods). Overlooking these symptoms, Mr. Corbin says, can undermine a company's aim to march toward a common goal, and in step.

►The most important consideration in Rockwell's evaluation of an acquisition prospect is compatibility with the company—from a standpoint of organization, policies, markets, production, sales, and other factors. The company steers clear of acquisitions which would take it into lines completely unfamiliar to its existing management. Rockwell seeks to head off corporate indigestion by 1, buying complete control, 2, buying sound management, 3, buying only those aspects or parts of businesses which it needs.

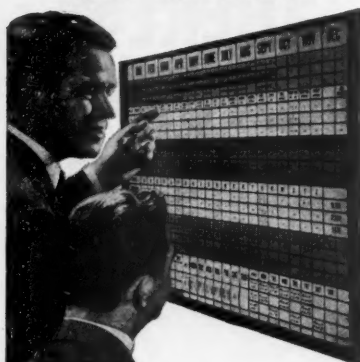
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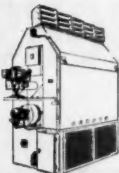
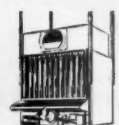
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PERSONNEL

continued from page 43

might take a manager six to eight hours. However, he can cover that many people verbally in a little more than an hour.

The oral review overcomes another obstacle, too. Most managers hate to write down opinions of people but they feel free to say things they normally would not put on paper. They pull no punches. They don't worry about dressing up statements.

2. Review every employee on each level. It's not always true that the best men stick out like sore thumbs. So it's a good rule not to rely on visibility to identify the outstanding candidates for better jobs. Careful reviews almost always turn up men who were previously passed over for promotion.

3. Never accept a single opinion of a man's qualifications. Cyanamid officials try to get reviews from three to four persons about an employee. This tends to reduce the chances of error or inequity. When the opinions of several differ widely, those giving the opinions are called together and talk until an agreement is reached on the man's potential and performance.

4. Keep in mind that this is a rough screening. This is not a permanent appraisal and needs to be supplemented by further analysis of the individual's full capabilities before being used as a basis for managerial decisions. People do change, if somewhat slowly, so, if possible, an annual review is advisable. This guards against tagging a man with a permanent label. Also, as one staff man points out, "A man who may not be doing well in one job will do well in another, under another supervisor."

Mr. Owen stresses that the reviews are not an attempt to judge today how far a man will go in the company within the next five years. That's unrealistic, he says. "In this phase, what we're trying to do is work with the divisional and department managers in analyzing what their various men may be ready for in the foreseeable future."

The staff interviewer does not judge the man being talked about. He simply records what the supervisors say. The interviewer usually begins by asking into which category the interviewee would place the man being discussed:

1. Promotable to the next level and probably higher levels later on;

a superior prospect; feel he will make a good showing at whatever he does;

2. Probably promotable to next level of responsibility; has ability to grow into a job of at least the next higher level;

3. Satisfactory in present job but not likely to be promotable; about at his ceiling; possibly could be considered for lateral transfer;

4. Barely adequate (or less) in his present job; needs attention.

Further questions such as these may help the man being interviewed decide in which category a man seems to fit:

How does he meet the requirements of the job? Does he possess all qualifications now, or is he still developing them? How is he doing? Does he seem to have ambition to grow? How does he demonstrate this ambition? Is there room in his present job for growth and further development? Do the requirements of his present job provide the right kind of challenge?

If the man's abilities seem to exceed the requirements of his present job, then questions such as these are asked:

How long will he be satisfied to remain at his present level? Has he room to grow at his present location? Is he slated for any change in the near future? Can he grow company-wide, in new fields of endeavor?

If questioning indicates that his abilities are matched by requirements of his present job, then these questions may follow:

Will he be satisfied to remain at his present level? Is he blocking the growth of people beneath him? Can he develop laterally?

If the requirements of the employee's present job exceed his abilities, the questioners may ask:

Would training of any type remedy this? Is he properly placed? Would a transfer be a more appropriate solution?

Once the interviewing is completed, and appraisals of each man have been completed, a presentation is made by division management to the top staff of the company.

This review is presented by a series of charts and slides. For viewing ease in making the presentation to a sizable group, transparent overlays are used and the charts are projected on a large screen.

Review of the organization

The review of the entire organization is presented in much the same way as the individual review. The same basic information is used—personnel inventory files.

As every manager knows, an organization chart is a useful device for getting a quick picture of the over-

all structure of a department or division. However, an organization chart, as such, tells only part of the story, that is, who reports to whom. For instance, it doesn't show the ages of the employees, their length of service with the company, their time on the present job, their salary relationships.

By the use of the personnel inventory to make transparent overlays showing such things as a table of jobs by salary level, education level, and other pertinent facts, management can detect weaknesses and strengths within the organization according to categories.

Typical charts for a divisional review might include:

Total personnel in the survey by division, department and location; educational attainment; number in each salary level, by degree; number in each salary level, by service; number in each salary level, by age; utilization of women in division; transfers between locations of division; transfers from a division to other divisions; transfers into a division from other divisions; summary of termination, over five years; length of service at termination date; age at termination date; potential of terminated employees; supervisory and managerial positions, potential of incumbents; candidates for transfer into supervisory and managerial work; and potential for advancement in scientific and development work.

A chart on management jobs by salary level would show in general the number of people involved in the review, the jobs that they hold, the salary relationship between jobs, and the discrepancies, if any, between levels of management.

For instance, an unusual salary differential between the production superintendent and the next highest paid employee in that function might be demonstrated.

This would indicate that something is wrong—either titles, salaries, the organization structure, or the incumbents.

A chart showing age distribution by salary level, officials say, is one of the most useful tools for diagnosing organization problems.

A typical chart shows age ranges across the top, salary ranges down the left side.

Suppose, for example, a chart shows that 50 per cent of those in the group under review were more than 50 years old and most of these employees were in the lower salary levels.

This may indicate a lack of movement upward.

The company also uses a chart to show length of service by salary level, another indicator of organization

health. Excessive numbers of short service employees on such a chart would indicate high turnover which management would want to examine, Cyanamid officials point out.

Most managers want to look at the educational attainments of their groups. A graphic presentation of this sort turned up the fact that the distribution of degrees was concentrated in the younger and shorter service groups. An official noted this would have to be watched or the young employees might start getting in each others' way or holding each other back.

Another important chart shows the flow of personnel in and out of the company, usually over a five or 10 year period.

Not only does it show if employees are going outside the company for advancement, but it also indicates if employees are being given the opportunity to work at different locations, under different bosses, in different functions.

Such a chart also shows whether or not the group or organization is providing its share of candidates for top company positions and other company locations.

Charts also show where promotional channels have been clogged. When the length of time on the present job is shown graphically, managers can see which employees have leveled off, which are moving up, where poor performers have not been removed.

Bottlenecks and deadend jobs are spotlighted as well as such things as a man's experience in more than one type of job, experience in more than one location, experience under different bosses.

The details and mechanics of using this method of review and analysis, of course, will vary with the company. But nevertheless, development of people is recognized as a key responsibility of the company's management.

As one top executive has said: "If Cyanamid had to pick a single goal for all of our management development activities, I think it would be this: to get every person in a management job to recognize in his daily actions that one of his prime responsibilities is the development of the people who report to him."

This type of review and analysis is designed to help managers reach that goal.

END

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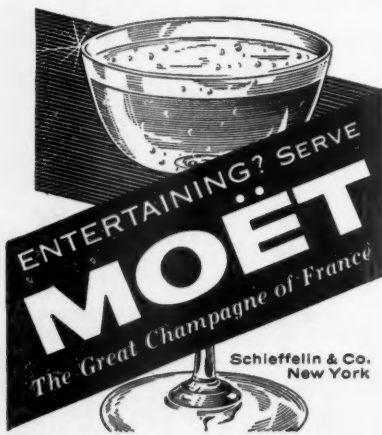


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NEXT BOOM

continued from page 40

spoon-fed or controlled by any government agency.

What is your view of the long-range prospect for regulation of business or for interference in business?

The way of creating the best climate is through less interference.

Now, don't misunderstand. I feel that business has to be regulated in certain areas but I am a great exponent of letting business alone to the greatest extent possible.

You anticipate, then, that government over the long run will tend to create a more favorable climate for business?

Certainly, that has been the objective of this Administration.

We are doing everything we can to see that government does not in any way harass or interfere in business's logical and legal opportunity for betterment.

Mr. Mueller, if the U. S. economy should begin to slip alarmingly, would you anticipate a pick up of public works programs?

After all, remember we are in one of the biggest public works programs there is—the road building program. In that, the government is prepared to spend billions of dollars. That in itself is a big stimulus. I believe that the federal government can give direction and suggestions and possibly over-all planning. I think public works programs are primarily a responsibility of the states. I do not feel that the federal government should get into areas that are intrastate.

You don't feel that public works programs are of any tremendous significance, then, in bolstering the economy?

Tax cuts would probably be the greatest stimulus, especially if there would be recession.

Would you say that the U. S. economy is now depression-proof?

Just about—if you mean depressions of the 1930 magnitude. We have built into our economy certain factors toward that end. For instance, people don't worry about their old age the way they used to. Maybe that's good, maybe it's bad, but it's a fact.

We have developed in our subconscious, you might say, a feeling that the government would never let our economy slip to the point that it has in the past. I think that heroic measures would be taken by any Admin-

istration if such a situation was imminent.

The mere fact that that has been accepted in the people's minds makes a really serious and long-lasting downturn almost impossible.

Of course, you have wars or the threat of wars. There are economic upheavals in foreign lands. These things are upsetting. So you have a number of factors that can alter a normal situation.

On balance, however, I believe that, while a depression might be possible, it's not probable in the years ahead.

What do you see ahead in terms of labor union demands?

Sooner or later labor will realize that to get a larger piece of the pie is self-destructive, that the only thing that will matter is the creation of a larger pie. It will realize that un-economic wage increases injure the economy.

Do you think that labor will see the need for this?

I think they will, and I hope soon. Let's examine this question of productivity? What causes an increase in productivity? Men don't work harder. They either have better tools or better methods—again a result of research.

I do not feel that labor should get the entire benefit of the increase in productivity. The greatest benefit to the economy as a whole is to pass on the savings due to increased productivity in the form of lower prices. Management should realize this as well.

This engenders increased production and greater total wealth.

Those who are responsible for that increase in productivity should have part of it. Sooner or later that must be recognized. I think the time has come when labor as well as management and government must recognize that profits are the key to our growth.

Do you anticipate an auto strike?

If demands that have been publicized are pursued, I anticipate that they will be resisted by the manufacturers.

If that means a strike, then probably a strike would be inevitable.

Let's hope we'll see a tendency to resist uneconomic demands. I have no objection to improvements or increases where they can be proved justified, but merely trying to get a bigger portion of the pie is ultimately going to defeat the purpose.

It's your feeling that labor leaders will recognize the need for profits?

Yes. That time will come. We now have responsible labor leaders

who recognize that situation. Labor leaders attain their positions because they promise to improve the lot of their particular union members. It is felt that the only way union leadership can maintain itself is constantly to demand more and more. I don't feel that this is going to be the case in the future. Union leaders must recognize the profit and loss system, our free enterprise system, for what it is and that everybody must be prosperous or else the whole machine breaks down. I have great confidence in the working people of this country.

What are the prospects for a shorter work week in the near future?

I don't think we have any prospects of a shorter work week. It cannot be demonstrated as feasible. We have fewer people in the age group of 20 to 24; five years from now we will have fewer people in the age group from 20 to 29. These are the prime working ages. On the other hand, we have an increased number of children and older people who are dependent on these people. We have a shrinking proportion of the total population producing the goods and services to be consumed by a growing dependent population. It is impossible to increase productivity to the point for you to look for a shorter work week with a lower potential labor force.

I think it is a foolish thing for the unions to keep pushing.

If the demand is granted in some industries, could that be a deterrent to economic growth over a period of years?

The rubber industry has had it for a number of years. As a result a large percentage of their workers are what are known as moonlighters—fellows who have two jobs. This augments their income tremendously. But that is not the avowed purpose of a 35-hour week. It is to spread work for fear that there won't be enough work for all. I think it is a defeatist fear. Looking ahead, it would be absolute folly even to consider a 35-hour week at this time.

Looking on beyond, say, 10 years, 20 years from now, can you see the possibility of shorter hours?

Merely looking at history will show you that there is a possibility. It's possible that, even with a 35-hour week, new businesses would be created as a result of the leisure time involved. But, after all, there's only one source for wealth and that is production. Everything depends on production.

If any measures are taken which curtail production, our real wealth is lowered by that extent. END



Pete plans a salute to industry

"Don't bother me now, Andy, I'm busy. The Chamber of Commerce is organizing a Salute to Industry Day, and I'm in it up to my neck.

"Here are just a few of the things we have to organize: Open House at five factories; badges for visitors, greeters and escorts; transportation to and fro; big lunch at the Mansion Hotel, with the Governor making a speech; itineraries; souvenir booklets; signs and streamers—I don't see how I can get it all done.

"But it's one of the most worth-while projects the Chamber can promote. It honors industry. It lets people find out for themselves how much local industries contribute to community progress and prosperity. Everybody ought to pitch in and help get this thing rolling.

"Hey! Andy, where are you going? Come back here and sit down a minute. We'll talk about your joining the C. of C. tomorrow, but right now how about giving us a helping hand? No better way to find out for yourself how important this is to you and all the other businessmen in town. Let's go!"

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WE CAN GAIN FROM SPUTNIK

RUSSIA HAS DONE this country a great favor. We have only to take advantage of it. President Eisenhower has told the people that he is preparing to do just that.

The result can be more efficient national defense and greater government economy.

If this seems incredible now it is only because the Sputniks, although unmanned themselves, managed to get a great many people up in the air.

From that hysterical elevation, the first reaction was that only increased federal spending for defense, research, education—or almost anything—would enable us to catch up militarily and scientifically with our energetic rival.

President Eisenhower, who has remained calmer than most through the Sputnik episodes, has agreed that additional defense spending may be necessary. But he proposes that we first undertake two other types of savings. One is elimination of federal civilian activities which “while desirable are not absolutely essential.”

The second is to “go over military expenditures with redoubled determination to save every dime that can possibly be saved. We must make sure that we have no needless duplication or obsolete programs or facilities.”

Elimination of civilian activities will depend largely on whether the American people are willing to do for themselves what, over the years, they have learned to expect the government to do for them. Only politics and patriotism can bring such savings about.

But getting full value for military expenditures is an administrative problem. It can be accomplished by setting up what Alexander P. De Seversky has called “a military establishment attuned to the technology of our times.”

The lack of such an establishment now, in spite of a presumed unification of services, has been pointed out repeatedly by qualified critics, including Mr. Eisenhower himself who, as a presidential candidate, told a Baltimore audience in 1952:

“Such unity as we have achieved is too much form and too little substance. We have continued with a loose way of operating that wastes time, money and talent with equal generosity. With three services in place of the former two still going their separate ways and with an over-all defense staff frequently unable to enforce corrective action, the end result has been, not to remove duplication, but to replace it with triplication. All of this must be brought to as swift an

end as possible. Neither our security nor our solvency can permit such a way of conducting the crucial business of national defense.”

Appointment of Dr. J. R. Killian, Jr., as special assistant to the President for science and technology can be the first step in bringing duplication to “as swift an end as possible.”

As president of the Massachusetts Institute of Technology, Dr. Killian saw the need and described it in these words:

“We must create the organizational patterns which will make it possible to develop them [air defense, intercontinental ballistic missiles and other great weapons systems] without wastage of manpower and resources and unprofitable duplication of effort.”

It will be his task to allocate money and manpower in the missile program according to the need, not according to the bargaining weight of the negotiators for the several armed services. Indications are that he will have powerful support in this.

Senate Majority Leader Lyndon Johnson has promised a thorough review of the current defense problem in all its aspects.

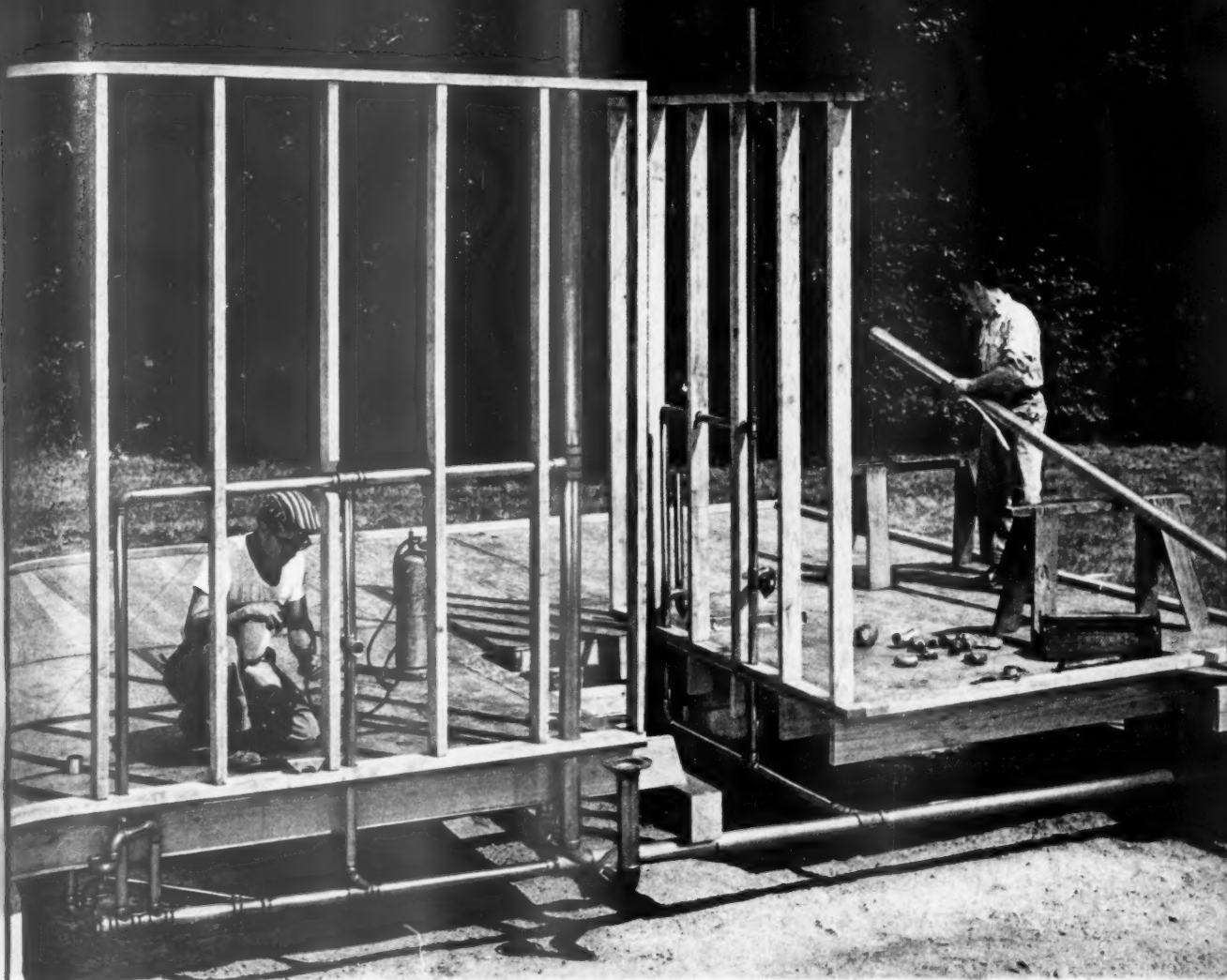
The House Appropriations Committee has warned: “It is the firm belief of a majority of the Committee that this matter of rivalry is getting completely out of control. It is expensive and undesirable and points up the urgent need for more effective control and direction. A sincere and self-sacrificing effort must be made by all concerned to substitute real unification for the present loose federation.”

Sen. Clifford P. Case, New Jersey Republican, has said:

“The dollar-minded see in the event [Sputnik] proof of inadequate financial support for the American program. . . . It may be that additional funds could be fruitfully applied to our missile and satellite programs. But there are strong indications that inter-service rivalry, lack of coordination between the missile and satellite programs, and honest differences of opinion are at least equally involved.”

Now rivalry in missiles may be forced to yield to the national interest. The beep-beep of Sputnik turns out to be a rallying call rather than the voice of doom. It has shown the public the need for change and for supporting actions which will set up a defense establishment that can cope with the problems caused by the rapid development of new weapons.

In doing that, the Sputniks may have done us more good than if we had launched them ourselves.



Model of a typical modern copper tube sanitary drainage system for a kitchen and two baths in a ranch-style home. Plumbing contractor (left) is shown making a solder connection, while his assistant (right) prepares to cut a 20-foot length of copper tube.

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